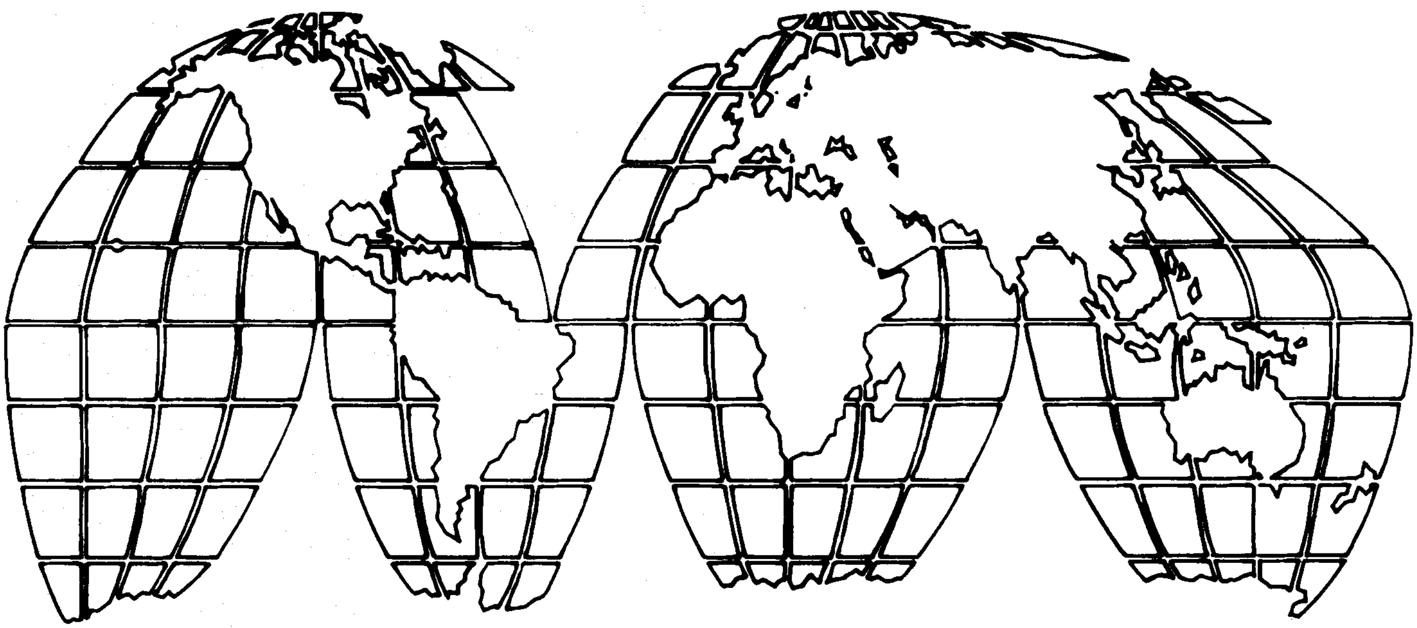
A.I.D. Evaluation Special Study No. 11

The Private Sector And The Economic Development Of Malawi



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THE PRIVATE SECTOR AND THE ECONOMIC DEVELOPMENT OF MALAWI

A.I.D. Evaluation Special Study No. 11

by

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FOREWORD

In February 1982, the Administrator of the Agency for International Development (AID) requested that the Bureau for Program and Policy Coordination, through its Office of Evaluation, initiate a series of studies examining the contribution of past AID efforts to strengthen the role of the private sector in the development process. As part of the first phase of this effort, four countries--Malawi, Costa Rica, Thailand, and Cameroon--were selected for in-depth evaluations of the central issues surrounding this question. The development history of these four countries is, in a sense, unique. In a large measure, the economic history of Third World countries in the past two decades has not been a happy one. The remarkable economic performance of these four countries during this same period distinguishes them from many of their neighbors and from the developing world at large. The decision to examine success rather than failure was a purposeful one, and the studies need to be read in this light.

The country studies focus on two major areas of interest: the contribution of public policies to the development of private activity, and the impact of external assistance on the efficient functioning of internal markets related to capital, manpower, and information needs. The emphasis of these studies is not on private sector development as an end in itself, but as a means to AID's central objective of assisting recipient countries to meet the basic human needs of their poor majorities through sustained, broadly based economic growth. Thus, all components of the private sector are important, from large-scale industry to small enterprises, from external private capital to the poor smallholders in the rural areas.

Field studies in the four countries were conducted in June-July 1982. Synthesis reports comparing the central themes investigated in the country studies are available.

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SUMMARY AND LESSONS LEARNED

The private sector is alive and well in Malawi and owned by the Government. At independence in 1964, Malawi was poor (per capita income of $117 in 1982 dollars), small (the entire monetized economy was smaller than that of a U.S. town with a population of 16,000), and landlocked. It had no mineral resources, only 200 km of paved roads (single lane, at that) and 33 college graduates. It was fiscally bankrupt, dependent on U.K. grants-in-aid to pay for basic and minimal Government service. There was no indigenous entrepreneurial class; whatever medium- and large-scale private business existed was in the hands of the Asian and expatriate communities, respectively. Given this background, few expected Malawi to be anything more than an agricultural backwater, supplying labor to her more developed neighbors of Zambia, Rhodesia, and South Africa.

Sixteen years later, Malawi's progress, in spite of all these obstacles, has been remarkable. Per capita income has grown by 2.9 percent per year, six times the average growth rate of poor, small, landlocked countries. Agriculture has remained the predominant sector in the economy, and Malawi is one of only three Sub-Saharan African countries to exceed a four percent rate of growth of agricultural output during the decade of the 1970s. The Government has been able to mobilize foreign resources to expand its infrastructure base dramatically. Central to this progress has been the growth of the private nonagricultural economy, despite the dearth of indigenous entrepreneurs.

In order to overcome this constraint, Malawi developed three quasi-private, quasi-public holding companies, none of which is directly controlled by the Government, although all are responsible to the Head of State and Life President, Dr. Hastings Kamuzu Banda. These companies gradually gained control over a large portion of the private economy. In general, management remained in the hands of the expatriate firms, while profits were divided. Dividends going to the Malawi public holding companies were reinvested in other ventures. While Malawi control was forced upon the transnationals through various financial levers (converting equity to loans or paying for purchases out of future profits), it is clear that the result was still largely satisfactory to these firms. Profits were high, the political environment was stable, and there were no limitations on repatriation of dividends. Thus, over the first 13 to 15 years of Malawi's history, the system worked well.

Of equal importance with the institutional development of the public holding company was an economic policy framework that was market oriented. Throughout the first 15 years of Malawi's history, prices for most commodities and services reflected opportunity costs, and wages were very low, consonant with the abundance of labor. Thus, resource allocation was generally efficient, and distortions because of Government interference in markets were minimal.

Even the close links between Government and the private economy were rarely the occasion for policies which favored Government enterprises over private enterprises or which seriously skewed incentives. Management of most firms was left in the hands of the expatriate partners and decisions were taken with the interests of the enterprise in mind. Thus, Government policy was aimed at protecting the national interest, and enterprise policy was aimed at promoting the firm's interest. Too often, the opposite is the case.

By 1977, however, there was increasing evidence that management was being increasingly politicized. It was not so much that the Malawi managers were inexperienced or undertrained (although that was true to some extent), as that Malawians were much more subject to political influence. Thus, from 1977 on, decisions were made in many of the public holding companies and their subsidiaries that were not prudent or economically motivated.

Given the way in which the private sector grew, it was already true that many firms were highly leveraged. The new politicized management built new structures on this weak foundation. The rate of credit expansion was particularly high in tobacco estates.

In 1978-1981, the international environment turned increasingly hostile, and the export industries, in particular, suffered. Because of Malawi's dependence on international markets, its own economy went into a recession. Profits plummeted. Given the highly leveraged structure, more and more firms were unable to pay their debt obligations, and a severe credit crunch resulted.

In the past two years, the Government of Malawi seems to have learned the lesson. Substantial reorganization of the public holding companies is underway, with particular emphasis on a return to less politicized management. Unprofitable firms are going under, and the policy of easy credit is being revised. However, problems remain; the international environment remains inimical to Malawi development, but there is substantial hope that needed reforms will be adopted.

The present analysis of Malawi's remarkable economic performance since 1964 underscores a number of relevant lessons as AID renews its efforts to enhance the role of the private sector and to improve the role of market mechanisms in striving for sustained, broadly based economic growth. The fundamental conclusion of this study is that public policies supportive of market-oriented growth are a major determinant of economic progress. The basic connection between this development strategy and poverty alleviation is employment; moreover, employment generation in great measure depends upon appropriate prices for capital and labor.

Lesson No. 1: Public policies are a determining factor in achieving sustained, broadly based economic growth.

An important lesson greatly magnified by the Malawi experience is that improving the efficiency of market mechanisms rather than enhancing the role of the private sector as such is the appropriate focus for AID's new initiatives. In Malawi, the distinction between public and private enterprises is blurred by the substantial participation of large public holding companies in otherwise privately owned firms. Successful operation of these hybrid organizations is not so much dependent on their ownership structure as it is more directly a result of their ability to respond to market forces.

Lesson No. 2: Traditional entrepreneurial activity is a less important source of enterprise vitality than managerial response to market incentives.

Lesson No. 3: Government-owned or -operated enterprises can be efficient if they are run with market incentives in mind, and if political interference is minimal.

Economic policies in Malawi, for the most part, have been rational and pragmatic. Nevertheless, the achievement of certain political objectives was assigned top priority in the overall goals of the newly independent nation. The prospect of an expatriate-dominated private sector was and is unacceptable to the Government. Transfer of the ownership of the country's capital assets as well as the management of these assets to Malawians remains a primary objective of the Government. This process, generally speaking, has proceeded relatively smoothly but not without certain costs. The major benefit of expatriate management is not so much to provide scarce skills as to insulate economic managers from political pressures. Localization of top management has led to a degree of inefficiency, not because of reduction in skills, but because of the increased politicization of the economy.

Lesson No. 4: Economic policies in the end reflect the political objectives of the elite. At times these objectives conflict with the objective of sustained, broad-based, economic growth.

Lesson No. 5: Even in the best run economies, political interference in economic affairs will ultimately lead to noneconomically motivated decisions. Substantial numbers of such decisions lead to economic crises.

The small size of Malawi's economy has significantly shaped its economic organization and growth strategy. In the first decade following independence, growth of the manufacturing sector was fueled by the establishment of import-substitution industries. These industries were very efficient due to the fact that public policies did not distort relative prices. At the same time, the Government did establish a price control system in order to prevent monopolistic profits. The size of Malawi's economy also makes it particularly vulnerable to the vagaries of the international environment. Global recession in the past few years has had a substantial negative effect on Malawi's economic performance, possibly offsetting any of the benefits resulting from concessional assistance.

Lesson No. 6: Import substitution is appropriate and efficient if it is not linked to special Government policies distorting relative prices.

Lesson No. 7: Small economies have very high degrees of monopoly, and accordingly, a high degree of Government involvement in the economy.

Lesson No. 8: A small economy like Malawi's is inextricably caught up in the vagaries of the international environment.

Lesson No. 9: International trade and the vitality of the international environment is just as, if not more, important to the economic well-being of an LDC as is concessional assistance.

Concessional assistance has played a major role in Malawi's successful performance. The impact of this assistance is most obvious in terms of the amounts transferred. Specific project interventions, however, have had a major impact upon the economy, particularly with regard to the evolution of the capital market.

Lesson No. 10: Donor assistance to intermediary financial institutions has had an important beneficial impact on the Malawi economy.

Lesson No. 11: Development Finance Institutions such as CDC and IFC have also had an important beneficial effect on the Malawi economy.

PREFACE

This study is based on an analysis of pertinent published information about Malawi and on field research conducted in May-June 1982. If a useful and valid analysis is to emerge from a short in-country stay, it is essential to be able to exploit the insights and accumulated experience of persons thoroughly familiar with the subject matter and with the country itself. Government of Malawi officials, individuals working in the private sector, and the USAID Mission in Lilongwe went well beyond the customary bounds in providing this assistance. If the description and analysis are on the mark, it is largely because of the information and assessment these people shared with us.

The report is in four parts and includes five appendixes. The major theme of the report is the contribution of public policy and external assistance to the development of private activity in all segments of the Malawian economy. Malawi was chosen for its longstanding commitment to market-oriented development. The team concluded that its reputation as a remarkable development success story is well deserved and that many useful lessons can be drawn from the pragmatic approach which the country has adopted to generate economic growth and raise the standard of living of the populace.

GLOSSARY

ABA - African Businessmen's Association

ADMARC - Agricultural Development and Marketing Corporation of Malawi

BESS - British Expatriate Supplement Scheme

Chichewa - Ethnic group living in southern Malawi

Chitimbuka - Ethnic group living in northern Malawi

CDC - Commonwealth Development Corporation, Great Britain

DWM - David Whitehead and Sons (Malawi) Ltd.

EEC - European Economic Community

ESCOM - Electricity Supply Commission of Malawi

GDC - Gross Domestic Consumption

GDE - Gross Domestic Expenditures

GDP - Gross Domestic Product

GOM - Government of Malawi

GRE - Guardian Royal Exchange of London

IBRD - International Bank for Reconstruction and Development of the World Bank Group

ICOR - Incremental capital-output ratio

IDA - International Development Association of the World Bank Group

IFC - International Finance Corporation of the World Bank Group

ILO - International Labor Organization

IMF - International Monetary Fund of the World Bank Group

INDEBANK - Investment Development Bank of Malawi

KFCTA - Kasungu Flue-Cured Tobacco Authority of Malawi

MCP - Malawi Congress Party

MDC - Malawi Development Corporation

MEPC - Malawi Export Promotion Council

MK - Malawi Kwacha: US$1=MK.95

MTI - Ministry of Trade and Industry, Malawi

MUSCCO - Malawi Union of Savings and Credit Cooperatives, Ltd.

NICO - National Insurance Company, Ltd. (of Malawi)

ODA - Overseas Development Administration, Great Britain

OECD - Organization for Economic Cooperation and Development

OSAS - Overseas Assistance Scheme

Press - Press (Holdings), Ltd. - Group of companies wholly owned by President Banda

PTC - Peoples' Trading Company

SADCC - Southern African Development Coordinating Committee

SDR - Standard Drawing Rights

SEDOM - Small Enterprise Development of Malawi; program of the Malawi Government

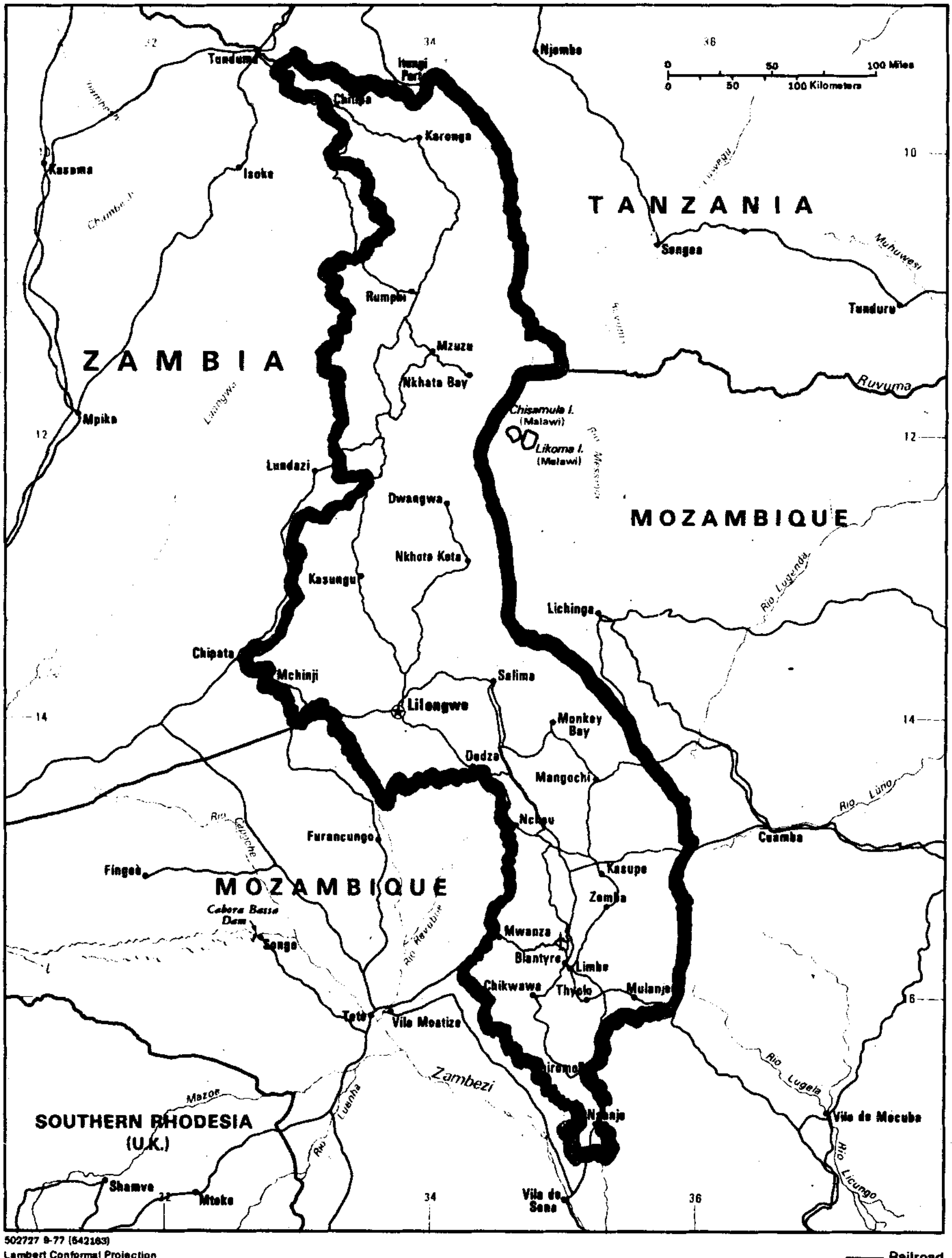
SUCOMA - Sugar Company of Malawi

TCO - Technical Cooperation Office

UNDP - United Nations Development Program

UNIDO - United Nations Industrial Development Organization

Malawi



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I. ECONOMIC DEVELOPMENT IN MALAWI

A. Introduction

On July 16, 1964, six years to the day after Dr. Banda (later to become Life President Banda) returned to his country, Nyasaland became the independent state of Malawi. While there was a great deal of fanfare to celebrate this achievement, Malawians had little else to rejoice in on their first day of independence. During the final years of its colonial history, the country had experienced a major depression and was by every measure insolvent. Moreover, the general consensus of colonial officialdom was that the country not only lacked sufficient resources to embark upon a new and prosperous future, but would have difficulty in maintaining its present low standard of living.

[illegible], Malawi did face a series of obstacles that made future prospects bleak. Malawi is a landlocked country--a fact which has a number of insidious effects, including raising import costs, lowering export revenues, and increasing the uncertainty of supply of key imports. Malawi is resource-poor, lacking any minerals that can be economically exploited. In addition, the economy, with a population of 4 1/2 million people in an area the size of Ireland, was very small. In 1964, marketed output totaled U.S.$100 million, roughly equivalent to that of a U.S. town of 16,000 people. Finally, Malawi's capital stock, both physical and human, was woefully underdeveloped. There were but 200 km of paved roads and 33 university graduates in the country in 1964.

Malawi, however, was not without important advantages as it began its struggle for a prosperous future. One important advantage that Malawi has over many of its African neighbors is its relative lack of tribalism. Chichewa speakers make up about two-thirds of the population, and Chitimbuka another quarter, with the remainder divided among a number of small groups, all sharing the basic Bantu language structure of the dominant dialects. Although significant cultural differences, such as descent systems and land tenure systems, exist, tribal hostilities are the exception in Malawi. Another of Malawi's important advantages is its agricultural land. Malawi covers an area of 36,000 square miles, much of it mountainous, but the remainder is fertile by African standards with a range of climatic and soil conditions which allows for a wide variety of crops and forest products to be grown. Finally, the country's birth was attended by a very powerful political personage, Dr. Hastings Kamuzu Banda, who has been the only president Malawi has known, providing the country with political stability.

The role of President Banda in the postindependence development history of Malawi cannot be dismissed with simple reference to the political stability he has achieved for the country. Perhaps as much as any leader in the developing world, Dr. Banda has stamped his personality on the total fabric of the society he governs. His detractors, and they are many, claim that his government is autocratic, and that he is a puppet of the erstwhile colonial regime. Others claim that his reputation in African nationalist circles stems from the idiosyncratic foreign policy which he has shaped for his country which, among other things, has resulted in amicable relationships between Malawi and South Africa.[1] While political developments, per se, are beyond the scope of this paper, economic growth and economic policies, particularly, cannot be understood without reference to the political environment in which they occur. Thus, some background comments on the interrelationship between economic and political forces are necessary.

Under Dr. Banda's leadership, Malawi has pursued a very pragmatic and rational development strategy. Government priorities have included (1) expansion of agricultural production, particularly estate agriculture; (2) improvement of physical infrastructure, concentrating on the transportation system; and (3) stimulation of the "private sector" of the economy and, in particular, the encouragement of industrial development. Implementation of these objectives was closely linked to the political goal of gradually transferring ownership of the country's capital assets to the Malawians themselves. Prior to independence, expatriate firms and Asian residents of the country dominated the monetized sector of the economy. Correspondingly, there was no indigenous entrepreneurial class, little indigenous capital, and few indigenous management skills. Thus, it was necessary to find a mechanism that would ensure Malawian control over the economy, yet retain expatriate resources critical to realizing the development goals of the country.

That mechanism ended up being the publicly owned holding company. Several of these organizations exist in Malawi with President Banda as their de facto head. His chairmanship of this corporate empire has enabled him to extend his powers far beyond the customary boundaries of Government activity. As a general principle, he has allowed market forces to determine the growth and decline of these organizations, but at the same

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[1]The unusual foreign policy Malawi has followed, "dealing with the devil" if necessary to further the interests of its people, is best illustrated by the foreign embassies in Lilongwe, Malawi's capital. Besides South Africa, Malawi has diplomatic relations with Israel and Taiwan.

time has remained conscious of the political utility of these firms and has not been adverse to mobilizing their resources for his own political ends.

In spite of President Banda's rather unorthodox brand of market-oriented development, the evidence overwhelmingly supports the success of his strategy. From a starting point of poverty, economic stagnation, and insolvency, Malawi has experienced rapid economic progress. The main purpose of this report is to analyze this dramatic transformation, highlighting the role of the private sector and public policies.

B. Economic Structure

At independence in 1964, the economy of Malawi was divided into three unequal parts. The smallholder sector was made up of approximately 850,000 holdings, averaging about four acres of cultivated land each, producing 58 percent of the total output, an estimated 80 percent of which was consumed by the smallholder on his farm. The Government sector produced 17 percent of the gross domestic product (GDP), but was unable to run itself without substantial inputs of expatriate skills and finances. And the private commercial sector, which was controlled by two groups--expatriate, European firms which dominated the larger enterprises and Asian-controlled firms which were concentrated in the petty trade, transport, and small-scale manufacturing subsectors--produced the remaining 25 percent of GDP (divided roughly into 13 percent services, 8 percent industry, and 4 percent agriculture).

The development strategy adopted by the Government of Malawi (GOM) had three major goals: (1) economic growth was to be accelerated as fast as possible; (2) growth was to be efficient by economizing on scarce resources; and (3) the economy was to be controlled by Malawians (which meant the indigenous African population). This set of goals led to a market-oriented, yet Government-dominated economy. The basic dilemma facing the political leadership was that growth required capital, skills, entrepreneurial and managerial ability, and modern technology, but all these factors were in extremely scarce supply among the indigenous population. Consequently, rapid growth implied dependence on foreign capital, foreign entrepreneurs, foreign managers, foreign skills, and foreign technology. It seemed, then, that goal one (rapid growth) and goal three (indigenous control) were contradictory.

It was necessary to find a mechanism that would ensure Malawian control over the economy, yet retain expatriate resources. That mechanism was what is called in Malawi, the statutory body. The Malawian statutory bodies added a fourth dimension to the economy, a bridge between the Government and the private sector, and in one case, a bridge between the Government and the smallholder.

1. The Statutory Bodies

There are two distinct types of statutory bodies: (1) those which perform a specific economic role by providing a particular service such as the Electric Power Commission or Air Malawi,[2] and (2) those which act as large holding companies through direct participation in otherwise private firms. The public holding companies are peculiar, hybrid organizations neither public nor private. There are four of these institutions, each different from the other, with broad influence in the economy: Press Holdings, Malawi Development Corporation (MDC), ADMARC, and INDEBANK.

a. Press Holdings, Ltd.

Press Holdings is a corporation which has no official links to the Government, but is owned by the Life President in trust for the people of Malawi. With 17 wholly owned subsidiaries and substantial interests in 26 other companies including both of Malawi's commercial banks, Press has evolved into the largest company in Malawi. Its origins date back to pre-independence, when Dr. Banda had purchased a newspaper to serve as the voice of what later became the Malawi Congress Party. The paper was run on a profitable basis and generated funds which were used by Dr. Banda for his political activities.

Press Holdings' postindependence rise to economic prominence is shrouded in mystery. Wholly owned by President Banda and extremely sensitive to his personal interests, Press has operated in a most unusual manner. Press Holdings has been described in various fashions: as a parastatal (which it clearly is not); as a development institution (which is open to question); and as a successful conglomerate (which is not altogether true today, but certainly was true several years ago). Perhaps more than any other fourth-dimension entity, Press is operated like a private sector business venture.

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[2]The important statutory bodies (parastatals) in Malawi are Air Malawi, Blantyre Water Board, Malawi Development Corporation, Malawi Railroads, Electric Power Commission, Kasungu Flue Cured Tobacco Association, ADMARC, Capital City Development Corporation, and the Malawi Housing Corporation.

Press' development role, if one can separate that from its business role, is derived from its allocation of profits. Two kinds of profits are distinquished--retained earnings which are invested in commercial enterprises and dividends accruing to the President which are used for his personal development projects. It is not known for certain which development activities have been financed through Press, but the Kamuzu Academy in Kasungu appears to have been built almost entirely by Dr. Banda. After completion, it was turned over to the Ministry of Education, although a large portion of the recurrent expenses are paid by a trust fund established by Dr. Banda from Press profits. Other high visibility projects, including the new capital city of Lilongwe and the new Kamuzu International Airport, are reputed to have been assisted with Press money.

The criteria for investment appeared to be the same as those for most risk capital ventures: the prospect of a significant return on a minimal investment, with leveraging as high as possible. This worked remarkably well until the late 1970s, at which time a general decline in the Malawi economy, coupled with increasing interest rates, forced Press into an awkward financial position. At the same time, the owner, President Banda, has a variety of ongoing projects dependent on profits from Press. It was at this point that policy, or perhaps power, overrode sound business principles. Press began to borrow, not to revitalize its operations, but to pass on these funds in the form of dividends to the President. This made a bad situation worse, and it is not clear how long this state of affairs might have persisted had not the nation required additional international borrowing, and the hand of the IMF was felt in the highest quarters.

b. The Malawi Development Corporation (MDC)

The Malawi Development Corporation (MDC) was established by one of the first acts of the new Malawi Government in 1964, under the direct responsibility of President Banda.[3] Its original purpose was broadly defined and covered new enterprises in agriculture, commerce, industry, and mining. Funding was initially by interest-free loans from the United Kingdom, combined with whatever other donor assistance could be scraped together. The initial configuration was modified into a limited liability corporation in 1970, with the Government holding the shares. President Banda has remained the minister

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[3]The Commonwealth Development Corporation (CDC) served as a model for the establishment of MDC just as Lonrho in many ways provided a useful guide for Press Holdings.

responsible for MDC. With annual sales in excess of U.S.$110 million and employees numbering 8,000, MDC has grown into a holding company for corporations whose assets total U.S.$100 million.

Initially MDC, with assistance from foreign companies acting as partners, concentrated its investments in what were basically import substitution enterprises. In the mid-1970s, as opportunities for efficient import substitution diminished, MDC diversified its investment portfolio into a wide range of activities. (Many of these new opportunities arose as a consequence of the Government's efforts to restrict the economic activities of the Asians living in Malawi.) At present MDC has an equity position in 57 enterprises. The continued expansion of MDC investments placed an ever-increasing burden on its thin layer of capable managers. These problems have been magnified of late as a result of the downturn of the national economy and MDC now faces severe financial problems.

c. The Agricultural Development and Marketing Corporation (ADMARC)

Originally the Nyasaland Tobacco Board, and later the Farmers Marketing Board, the Agricultural Development and Marketing Corporation (ADMARC) was established along its present lines in 1971. ADMARC is a statutory body, whose shares are wholly owned by the Government of Malawi. As Farmers Marketing Board, it had responsibilities over and above the marketing of agricultural produce, and shortly after independence, several of its wholly owned subsidiaries were transferred to the recently created MDC. During the late 1960s, the Farmers Marketing Board concentrated mainly on purchasing agricultural commodities and providing inputs to farmers. With the formation of ADMARC in 1971, a significant change in policy took place, transforming what was essentially a service organization into a new investment-oriented corporation.

As one of its new functions, ADMARC was vested with a number of estates in 1971. Four of the original six were taken over from former Government ministers, though under what circumstances is not known. In total, the six estates had almost 16,000 acres in tobacco, maize, and some other crops. It was determined that these and additional new estates would be farmed commercially to serve as examples to Malawi farms, both large and small. From the beginning, ADMARC was quite profitable, and provided a source of investment funds which the corporation was quick to use. All profits were retained within ADMARC until 1979, at which point the Government required that 40 percent be turned over to the Treasury.

As ADMARC's profits rose (in great part due to the growing margins between world prices and farmgate prices, especially tobacco), it began increasingly to participate in other areas of the economy. ADMARC now owns 19 estates totaling about 35,500 acres and has investments in 27 companies as well as loans outstanding to 34 companies. In selecting their investment portfolio, the original policy of assisting in the development of agricultural production seems to have been eclipsed by a move towards more industrial and commercial activities. Like MDC and Press, ADMARC is suffering from the worsened economic climate of the country.

d. The Investment Development Bank (INDEBANK)

The Investment Development Bank (INDEBANK) was established in 1972 with the Commonwealth Development Corporation (CDC), the Germans, the Dutch, and ADMARC as the shareholders. Later, the International Finance Corporation (IFC) of the World Bank Group became a shareholder. The purpose of INDEBANK was to mobilize capital and to act as both lender and investor in new ventures, in addition to acting as a counterbalance to MDC, whose role was similar but without the perspective of international shareholders. INDEBANK is capitalized at just under U.S.$5 million, with a further $9 million in income notes which are unsecured instruments subscribed by the shareholders, and currently bear interest at around 8 percent per year. It is very long-term interest-only financing which must be paid in full not later than the year 2020. Their portfolio at the end of 1980 included equity investments in 17 corporations and secured loans to 34 corporations (some of which are included in the 17 equity participants).

INDEBANK is perhaps the healthiest investment institution in the country. It has a central core of highly qualified expatriate personnel provided by the English, German, and Dutch shareholders. Sound investment criteria are closely adhered to and when an INDEBANK company gets into trouble, remedies are sought reasonably quickly and without prejudice.

INDEBANK's relative independence, however, has not come easily. When it opened its doors in 1973, the contractual agreement between the Government, INDEBANK, and its shareholders stipulated that the maximum single loan would be MK400,000. On that day, the general manager of Press Holdings Ltd. appeared with a loan application for MK4.5 million, an amount even greater than total capitalization. When the maximum loan limit was explained, Press' manager went to President Banda, who then closed the bank "until this matter is cleared up." Six months and many negotiations later, INDEBANK reopened, with the old limit intact, but with the exception that in cases of particular national importance, up to MK1 million might be committed. Press then reapplied, and the first loan on the books is reported to have been MK1 million to Press. In one or two subsequent instances, INDEBANK was pressured into assisting Press against its judgment, but managed to resist in most instances and has preserved its reputation for sound business decisions.

e. The Public Holding Company and the Private Economy

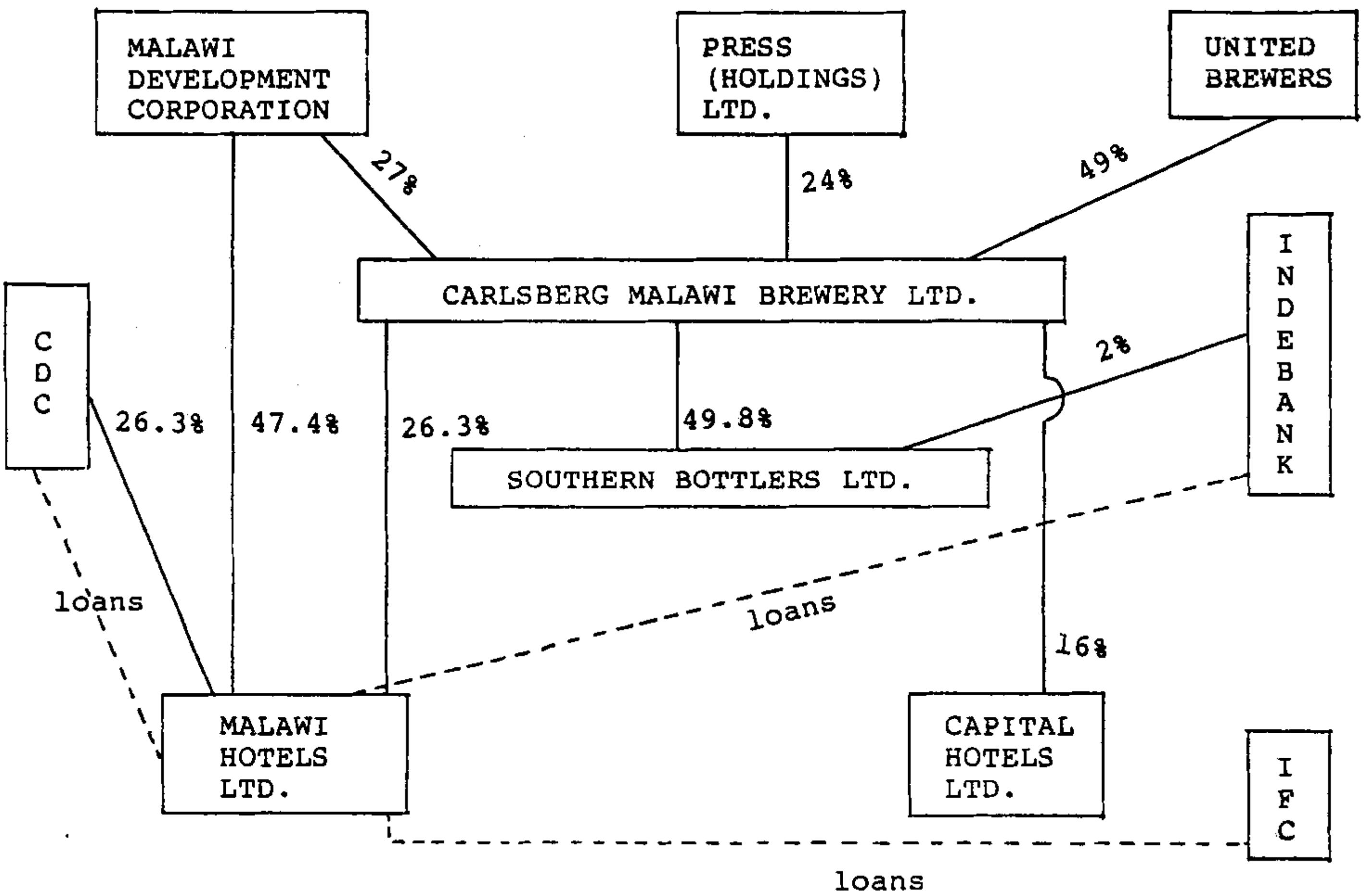
Certain recurring practices and ideas emerge from a consideration of the growth of these institutions. Perhaps the most noteworthy is either the lack of or limited amount of equity in so many enterprises resulting in highly leveraged situations. This is obviously a function of the original scarcity of capital but also reflects the political persuasion which can be applied to the financial institutions. Equally prominent is the practice of risk sharing. Table 1, from a recent international study, vividly illustrates this phenomenon. It is not unusual for many of the corporations in the country to have common shareholders and, in some instances, common directors. Management talent is frequently transferred from one corporation to another, and in a relatively small economy, this appears to be both useful and necessary. A third practice common to many enterprises is the inclusion of a foreign partner. This is evident in most of the larger concerns, and provides external capital, markets, management, and technology. In most instances, there appears to be a comfortable working relationship. Where harmony is absent, there are several instances of restructuring to eliminate one foreign partner in order to take on another and thereby improve the enterprise. Commercial Bank, in replacing their Portuguese interest with Bank of America, is a case in point.

A typical example of the corporate evolution of these four holding companies is Carlsberg Malawi Brewery Ltd. (Figure 1). The original partners in this investment were MDC, Press, and United Breweries of Denmark. Share ratios have changed slightly with several expansions but currently MDC owns 27, Press 24, and United Breweries of Denmark 49. With profits from its initial investment, Carlsberg Malawi Brewery Ltd. emerged as an investment or holding company in its own right. In 1967, Carlsberg, with a foreign partner, established Southern Bottlers Ltd. to act as a distributor for Carlsberg in addition to manufacturing Coca Cola, Fanta, and a range of local nonalcoholic drinks. Carlsberg and the foreign partner each controlled 49 percent of the shares. The remaining 2 percent was acquired by INDEBANK. It can be seen that INDEBANK's 2 percent becomes critical in any shareholder dispute, and though their participation from a monetary point is hardly significant,

Table 1. Malawi Holding Companies' Shares in Selected Industrial Firms (in percentage of total share capital)

	MDC	Press	ADMARC	INDEBANK
Milling, Food and Beverages				
ADMARC Canning Co.			100	
Carlsberg Malawi Brewery	27	23		
Cold Storage Co.	100			
Chibuku Products Ltd.		30		
Dwanga Sugar Corporation		20	38	
Grain and Milling Co.		50	50	
Lever Brothers (Malawi) Ltd.			20	
Malawi Distillaries Ltd.	40.8	20		
Malawi Tea Factory Co.			40	
National Oil Industries Ltd.	30	20	50	
Press Bakeries Ltd.		100		
Sugar Corporation of Malawi Ltd.		29	43	
Southern Bottlers Ltd.				2
BAT (Malawi) Ltd.				24
Textiles and Leather				
David Whitehead & Sons (Malawi)	29	20		
Merolga Knitwear Ltd.	51			
Bata Shoe Co.			49	
Cotton Ginners Ltd.			49	
Press & Shire Clothing Ltd.		100		
Press Fashions Ltd.		100		
All Other Industries				
Agrimal (Malawi) Ltd.	40	40		
B & C Metal Products	25			
Can Makers Ltd.	100			
Encor Products	23.3			
Enterprise Containers		30	20	30
Brick and Tile Co.	66.7			
The Match Co. (Malawi)	26.3			
Malawi Motors Ltd.	51	49		
Nzeru Radio Co.	64.5	31.25		
Nzeru Record Co.		100		
Optichem (Malawi) Ltd.			20	20
PEW (Metal Products) Ltd.			50	
Pipe Extruders Ltd.	26.3			
Plastic Products Ltd.	100			
Portland Cement Co.	49		50	
Press Engineering Ltd.		100		
Press Furniture & Joinery Ltd.		100		
Press Steel & Wire Ltd.		50		28.6
Packaging Industries (Malawi) Ltd.	76.3			
Memo Items				
Commercial Bank of Malawi, Ltd.	20	40	10	
National Bank of Malawi, Ltd.		47.35	33	

Figure 1. Carlsberg Malawi Brewery, Ltd.



their reputation for unbiased and apolitical judgment makes them an ideal arbitrator.

Carlsberg went on to expand its role as an investment company, purchasing shares of Malawi Hotels Ltd. (26.3 percent) and Capital Hotels Ltd. (16 percent). It is interesting to note that MDC controls 47.4 percent of Malawi Hotels Ltd., which, due to its equity share in Carlsberg, gives MDC, in effect, over 50 percent of the equity of Malawi Hotels. However, due to the manner in which the shares are held--less than controlling interest in either Carlsberg or Malawi Hotels--it is denied actual control.

2. The Large- and Medium-Scale Private Enterprise in Malawi--Alive and Well, and Owned by the Government

The most important and most dynamic set of economic units in Malawi are the larger, commercial firms and farms--the sugar and tobacco plantations, the large-scale retailing firms, the textile producers, the bakeries, the flour mill, and the insurance companies.

A number of key points need to be made. First, aside from the trade and distribution sectors, the number of firms in the private economy is relatively small. Consequently, most markets exhibit a substantial degree of monopoly. Second, the large firms are usually owned jointly by a transnational corporation and a Governmental holding company. Third, international development institutions such as the Commonwealth Development Corporation (CDC) and the International Finance Corporation (IFC) are important both as sources of capital and sources of management in the economy. Fourth, a few key institutions, both transnational corporations and Government holding companies, dominate the private sector. Last, these same institutions have a majority control of most of the domestic credit enterprises, from commercial banks, to insurance companies, to development banks.

These points are connected. The small size of the economy leads to natural monopolies. The economic argument for monopoly regulation is reinforced by the political imperative of not allowing foreigners to control the economy's main centers. Consequently, it is not surprising that the model of joint ownership between an expatriate firm and a Malawi statutory body is most prevalent in monopolistic industries (see Table 2).

The medium-scale firms have been dominated largely by the Asian population in Malawi. In order to extend its control of the economy, the Government has acted to limit the economic activities of Asians. During the colonial period, the Asians

Table 2. Distribution of Manufacturing Firms and Degree of Ownership by Press/ADMARC/MDC

Subsectors with One Dominant Firm	Firm Partly Owned by Press/ADMARC/MDC	All Other Manufacturing Subsectors	Number of Firms
Spirit Distilleries	X	Clothing	27
Beverages	X	Knitwear	7
Textiles	X	Food	5
Sugar	X	Soap/Cosmetics	4
Meat	X	Bakeries	8
Oils	X	Tea	19
Cigarettes		Rubber	3
Cement	X	Cement Products	4
Agricultural Implements	X	Metal Products	16
Twines	X	Furniture	9
Footware	X	Plastic Products	4
Machine	X	Books	4
Fertilizer	X	Printing	4
Piping	X	Tobacco	9
Pharmaceuticals	X	Buttons	2
Flour	X	Wood Products	4
Canning	X	Vehicle Assembly	4
Engineering	X	Miscellaneous Manufacturers	17
Ethenol	X		

had become quite active in the wholesale and retail systems of Malawi. In 1967, when Mandala retail outlets, owned by the expatriate firm of Bookers Ltd., closed down their operations, Asian-owned retail stores dominated trading activities, particularly in rural areas. In the early 1970s, as part of a general emphasis of the Government to shift ownership of firms in the private sector to Malawians of African origin, the Asians were encouraged to transfer their rural operations to local people. In 1974, this general preference became a Government policy and all Asians were required to sell their enterprises and move to the urban centers of Lilongwe, Blantyre, Limbe and Zomba. While the Government has made an effort to assist rural Malawians of African origin to fill the void created by this policy, it is the statutory bodies that have thus far been the principal beneficiaries.

The involvement of the statutory bodies in wholesale and retail services started in 1969 when MDC formed a partnership with McConnell-Kandodo, the largest wholesale distributor in the country. This partnership, called the National Trading Company, existed less than two years and resulted in heavy losses. In 1970, the partnership was dissolved and MDC became sole proprietor of the wholesaling business (although not the retailing). MDC then transferred its wholesaling operations to the Import-Export Company, a joint venture firm partially owned by Press. Import-Export Company established a wholly owned subsidiary, Chipiku, to run its wholesale operations in the rural areas. Chipiku now has a monopoly over this trade.

Press involvement in rural retailing services dates back to 1970 when many of the retail outlets of the McConnell-Kandodo chain were purchased by them. These stores operated at a loss until 1976 when the company was reorganized under new management and called Peoples' Trading Center (PTC). With the implementation of the policy to eliminate Asians from the rural trading centers, PTC has come under considerable pressure to open more outlets in rural areas. PTC's centrally operated wholesale system is directly linked to their retail outlets, providing them with stocks that are available only in short supply to other rural retailers. This makes them a formidable competitor for small independent African businesses which must buy from Chipiku.

3. The Smallholder and the Proprietal Firm

Although in the postindependence era the economic structure of Malawi has undergone a significant transformation, the smallholder sector still provides the livelihood for the vast majority of Malawians. However, many Malawians have established links with the monetized sector, working for wages while maintaining a garden to supply them with food. The 1977 census revealed that 80 percent of economically active Malawians were engaged in peasant farming.

In addition to small farms, there are a large number of small proprietal firms producing goods and services in what is typically called the "informal" sector. These tailors, traders, mechanics, carpenters, newspaper vendors, blacksmiths, tinsmiths, weavers, musicians, etc., provide important services, respond to market forces, are an important source of nonfarm employment, and provide an important waystation between the modern economy and the village.

4. The Government

The Government today is the focal point of the economy. Its management of its own budget, the money supply, and external economic relationships significantly determine the parameters which shape the growth and structure of the economy; it has first claim on non-Governmental resources through the tax system; it regulates prices for commodities, labor, capital, and foreign exchange; it licenses new enterprises; it is responsible for education and a great deal of vocational training; it directly provides goods and services and is a large employer; and finally, through the personal influence of the Life President, His Excellency, Hastings Kamuzu Banda, affects the decisions made by otherwise autonomous actors in each of the other sectors. We will return to the subject of public policy in the second section of this study.

C. Economic Performance

The development history of Malawi from independence in 1964 to the present day is one marked by striking successes against formidable obstacles. Being poor, small, and landlocked normally forecloses the possibilities for economic growth, as shown in Table 3. Malawi's per capita growth rate of 2.9 percent between 1960 and 1979 is, therefore, all the more remarkable.

This high per capita growth rate is correlated with a substantial transformation of the economy (see Table 4). Not only have there been dramatic increases in industrial infrastructure and in the stock of human capital, but the key economic ratios of savings to GDP, investment to GDP, and Governmental savings to GDP have increased to levels well above the norm for developing countries. This dramatic transformation occurred because of the ability of the economy to mobilize resources, and to allocate those resources efficiently.

Table 3. Average Rates of Growth of Per Capita Income, 1960-1979 (countries with populations greater than 1 million)

Category	Growth Rate
Poor Countries (less than $380 in per capita income in 1980)	1.6
Small Countries (less than 10 million people in 1980)	2.2
Landlocked Countries	1.1
Small and Poor Countries	0.7
Small and Landlocked Countries	0.7
Poor and Landlocked Countries	1.1
Small, Poor, and Landlocked Countries	0.5
Malawi	2.9

Table 4. Malawi Indicators of Economic Transformation, 1964-1980

Economic Indicator	1964	1980	Percentage Change
GDP per Capita (1980 Kwacha)	122.8	207.9	69.3
Investment/GDP (percentage)[1]	13.6[2]	25.5[1]	116.9
Savings/GDP (percentage)	-12.1	12.6[1]	204.1
Government Savings	-12.5	1.8	114.4
Employment in Wage Sector (000s)	135.0[3]	348.0[3]	157.8
Manufacturing Output (million 1980 Kwacha)	36.0	71.0	97.2
Agricultural Output (million 1980 Kwacha)	NA	NA	NA
Paved Roads (km)	200.0	1,899.0	849.5
Secondary School Enrollments	5,951.0	15,140.0[4]	154.4
University Graduates	33.0	2,656.0	7,277.8
Electricity (mnkwh)	43.0	365.5	750.0
Rail Traffic (million ton-kilometers)	85.1	228.3	168.3

[1] 1978-1980.
[2] 1964-1966.
[3] 1968.
[4] 1978.

1. Resource Mobilization

There are three primary constraints affecting development in most LDCs: the mobilization of savings, foreign exchange, and skilled labor. The savings are needed to provide investment funds for new enterprise activities. Foreign exchange is necessary to purchase needed inputs (capital and raw materials) not produced by small economies but essential for the development of a modern economy. Skilled labor is needed to organize and manage production enterprises, to provide key services, to run and maintain capital equipment, and to adapt and develop new technologies. Economic growth is in great measure dependent upon the alleviation of these constraints.

At independence, resources at the disposal of the society were minimal. Domestic savings were negative, the Government could not finance its own recurrent budget, imports of goods and nonfactor services exceeded exports of goods and non-factor services by 25 percent of GDP, and secondary school enrollments were a mere 2 percent of the appropriate age group. Between 1964 and 1980, savings increased by 358 percent, secondary school enrollments increased by 154 percent, Government savings went from -12.5 percent of GDP to +1.8 percent, and the resource gap decreased to 13 percent of GDP. How did this remarkable mobilization of resources take place? An examination of the mobilization of savings and foreign exchange during this period is provided below. Human resource development will be discussed in Section III.

a. Savings

It is apparent from the presentation of the sources of savings in Table 5 that the foreign sector (primarily concessional assistance) has been vital to Malawian development, providing an average of 57 percent of total savings. Without this assistance, Malawi's per capita income would be approximately one-third lower than it is today as would Government revenue and foreign exchange resources. At the same time, the Government has made significant progress in its contribution to total savings. Although a large dissaver at independence, the Government rapidly straightened out its fiscal problems to become a substantial net saver. As a consequence, foreign capital inflows declined from an 84.8-percent share of total savings in 1964-1966 to 35.4 percent in 1976-1978. The current financial crisis facing Malawi has once again made foreign capital inflows critical to capital mobilization. In 1979-1980, the foreign share of total savings increased to 50.4 percent.

Table 5. Sources of Savings, 1964/1966-1979/1980
(percentage share)

Year	Government	Public Enterprises	Private Monetary	Private Smallholder	Foreign
1964-1966	-33.8	4.6	38.2	6.2	84.8
1967-1969	-16.6	5.5	31.6	5.3	74.2
1970-1972	0.7	12.9	33.1	2.9	50.4
1973-1975	10.7	12.7	26.9	2.5	47.2
1976-1978	10.2	15.6	36.6	2.2	35.4
1979-1980	13.5	-0.3	34.3	2.1	50.4
Mean	-2.2	8.5	33.5	3.2	57.0

Table 5 also demonstrates that public enterprise savings were fairly large between 1970 and 1978, although they declined dramatically in 1979/1980. The largest portion of these savings (90 percent) were generated by ADMARC and in large measure represent trading margins, in other words, taxes on smallholders. Private savings have averaged a rather consistent one-third of all savings in Malawi (about 7 percent of GDP) and, more significantly, account for about 70 percent of total domestic savings. A significant percentage of private savings come from the large firms, many of which are owned by the Government through its different holding companies. As the majority of the profits generated by these hybrid firms have been reinvested, the high savings rate of this sector is linked to Government ownership even though they are "private" savings.

b. Foreign Exchange

During the first decade and a half of independence, export earnings, as shown in Table 6, dramatically increased from 47 percent of total foreign exchange earnings in 1964-1966 to 67 percent in 1976-1978. Export growth during this period was clearly fueled by increases in tobacco and sugar earnings, with

Table 6. Sources and Uses of Foreign Exchange, 1964/1966-1979/1980
(percentage)

Sources of Foreign Exchange

Item	1964/1966	1967/1969	1970/1972	1973/1975	1976/1978	1979/1980
Exports--Goods	40.8	42.7	41.3	49.6	55.3	43.0
Tea	10.8	9.7	8.5	8.7	11.0	6.1
Tobacco	12.9	11.0	15.6	20.0	27.1	21.0
Sugar	-	-	0.2	4.1	5.6	5.7
Other	17.1	22.0	17.0	16.8	11.6	10.2
Exports--Service	6.5	8.0	9.2	13.1	1.5	5.6
Remittances	.8	6.5	9.3	10.2	2.4	3.4
Transfers	29.0	17.6	8.6	7.5	8.7	9.2
Long-Term Capital	11.0	22.4	26.3	23.4	23.9	31.7
Public	7.3	14.6	19.2	19.3	18.5	25.8
Private	3.7	7.8	7.1	4.1	5.4	5.9
Short-Term Capital	2.1	3.1	4.0	-2.3	-1.1	4.9
Draw-Down of Reserves	+3.0	-0.3	0.2	-4.6	-0.6	0.2

Uses of Foreign Exchange

Item	1964/1966	1967/1969	1970/1972	1973/1975	1976/1978	1979/1980
Imports--Goods	57.7	58.1	57.0	70.4	61.8	53.4
Capital	13.0	16.4	17.4	19.4	19.0	15.6
Consumer	14.9	12.9	10.9	10.9	7.9	7.0
Intermediate Ind.	17.1	21.1	20.9	30.9	25.6	21.6
Intermediate Con.	11.8	7.2	7.7	9.2	9.1	9.3
Imports--Services	18.3	22.5	22.6	23.8	28.8	26.3
Repayment of Capital	4.7	4.9	6.1	4.0	4.2	8.2
Factor Services	19.3	14.5	14.3	1.8	5.2	12.1

tea earnings remaining stagnant but significant.[4] At the same time, the export economy became increasingly concentrated in those three commodities which represented only 58 percent of export earnings in 1964-1966, but rose to 76 percent of export earnings in 1976-1978. Foreign assistance has remained an important element of total foreign exchange throughout this period and accounted for approximately 27 percent of the total in 1976-1978. Import substitution has resulted in a substantial savings of foreign exchange. One indicator of this trend is the significant decline in the importation of consumer goods.

Throughout the period, short-term borrowing and use of foreign exchange reserves were kept to a minimum. The impact of the recent recession is clearly demonstrated in Table 6, as export earnings, particularly for tea and tobacco, fell dramatically, and increased reliance was placed on long-term capital flows to the official sector. What the table does not show is that for the first time Malawi was forced to resort to heavy commercial borrowing (average interest rate of Malawi's borrowing between 1965 and 1976 was 2.3 percent, while between 1977 and 1980, it rose to 5.6 percent).

2. Resource Use

There is little doubt that, in the main, the Malawi economy efficiently allocated resources between 1964 and 1977. Throughout the period, factor prices have reflected relative scarcities, and thus, given the abundance of unskilled labor, growth has been very labor-intensive, with wage employment growing as fast as monetary value added.

There are no data on the sectoral distribution of investment, although the public sector is responsible for more than 50 percent of total investment, and probably two-thirds of gross fixed capital formation. The great bulk of this investment has been in transport and power infrastructure, which has undoubtedly increased the profitability of private investment.

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[4]Trade sanctions against Rhodesia in the mid-1970s provided Malawi with an opportunity to expand tobacco production and increase export earnings. Rumors persist that some of the Rhodesian tobacco found its way into Malawi and the growth of foreign exchange earnings for this crop became inflated as a result. Nevertheless, flue-cured tobacco production in Malawi did rapidly expand in this period.

Growth has been primarily in the money economy, and has been especially fast in the industrial sectors, with import-substitution manufacturing, and estate agriculture representing the fastest growing subsectors. Thus, Malawi's growth has been both export-oriented and import-substituting at the same time. For the most part, import-substitution industries have been efficient and prices reflect relative scarcities. Neither tariffs nor quantitative restrictions are regularly used to protect domestic industries. Malawi's landlocked position is of some advantage in this context, for transport costs are so high that Malawi's industries receive natural protection.

The combination of low tariffs, wages which reflect opportunity costs, an exchange rate that is not overvalued, and low rates of inflation has led to efficient allocation of resources. This is demonstrated by the incremental capital-output ratios (ICOR) which measure the amount of capital needed to produce an extra unit of output. ICORs in Malawi have averaged 3.0 over the period of 1964-1980, a very respectable level, indicating that new capital resources are being used efficiently.

There is little doubt that the creation of wealth in Malawi progressed rapidly and efficiently during this period. However, there is some evidence that the distribution of the benefits of this recent growth has not been fully equitable in that the share of income going to the bottom 40 percent has declined.

Nevertheless, every income group in the economy has benefited from Malawi's growth record and the real incomes of the bottom 40 percent have increased by 67 percent, from MK60 to MK100. The bottom 80 percent of the population earn about 50 percent of the income. This share is somewhat higher than most countries at Malawi's income level. What is unusual about income distribution in Malawi is that the 50 percent of income earned by the lower 80 percent is divided almost evenly, so that the bottom 40 percent earn 21 percent and the bottom 20 percent earn 10 percent. These figures compare favorably with any country in the world. However, income distribution in Malawi is a nebulous concept due to the fact that a large share of the economy is owned by the Government and its statutory bodies and thus, a significant share of income is never distributed to households.

3. Recent History

After 14 years of economic prosperity, Malawi's fortunes began to deteriorate in 1977, the result of a conjunction of poor economic decisions with an unfavorable international environment. The terms of trade in 1979 and 1980 were less than three-quarters of what they were in the mid-1970s. Transport costs skyrocketed. For every dollar spent on an imported good, 47 cents were spent on services involved with transporting that good to Malawi. Consequently, import volumes in 1981 were only 8 percent above 1970 levels and 27 percent below those of 1979.

The international economy worsened just as Malawi was extending itself by investing heavily in a number of risky enterprises, primarily the expansion of tobacco estates which absorbed 40 percent of domestic credit. When tobacco prices fell as input costs rose, many of these estates, ill-managed in the best of times, became losing propositions, and a substantial number of debts were incurred for which there is little hope of repayment. At the same time, a number of Government investments in nonincome-earning assets (Kamuzu Airport, Capital City Development Corporation, and defense structures) reduced the ability of the economy to generate income.

With the decline in agricultural prices, several large statutory bodies, particularly ADMARC, became net dissavers, with a devastating affect on liquidity. With many firms highly leveraged, the recession had a large ripple effect, drying up credit and forcing many firms into payment arrears, particularly those in the agricultural and agroindustrial sectors. While this year's resurgence of tobacco prices will help return the economy to health, problems in the sugar industry may offset the effect of the tobacco price rise.

II. <u>PUBLIC POLICIES</u>

A. <u>The Political Economy of Malawi</u>

Malawi is a one-party democracy, which effectively means that all major decisions (and many minor ones), political and economic, are made by His Excellency, President Banda. Dr. Banda retains four ministries in addition to the Prime Ministry (Agriculture, Justice, Works, and Foreign Affairs), is commander-in-chief of the armed forces, chairman of the Malawi Congress Party and its women's and youth organizations, and is President and sole stockholder of Press Holdings Ltd. There are numerous anecdotes regarding his persuasive and pervasive influence. He is revered by almost all Malawians, and it is not infrequently said that a problem will be sorted out once the Ngwazi (Dr. Banda) learns of it.

There are three foci of power in Malawi--the Government, the Malawi Congress Party (MCP), and the quasi-governmental statutory bodies. At the head of each stands Dr. Banda. Despite the authoritarian nature of the political system, both the Parliament and the MCP act as omsbudsmen for the people, alerting Government when there are grievances and acting to channel the desires of the people to the political leaders as well as monitoring anti-government activity. In addition, the MCP acts to mobilize community action, using its considerable authority to ensure the success of self-help schemes and new Governmental initiatives.

The Government bureaucracy remains competent and generally efficient, although suffering from skills shortages in key areas. Corruption is virtually unknown, due in great part to the emphasis Dr. Banda has placed on maintaining the public's trust. At every level, hardwork and efficiency are the rule. Where skills are lacking, the GOM imports expatriates, with no seeming affront to national pride.

The most interesting links are those between the Government and the Government-owned private enterprises. In general, these enterprises are run with economic motives paramount. Surprisingly, there is little evidence of Government decisions being made in order to benefit Press or ADMARC, for example, at the expense of the national interest, the one exception, perhaps, being farmgate prices as administered by ADMARC. There are, however, some indications that vital political interests (such as the citing of Dwangwa or the pricing of staple foods) are permitted to override sound economic judgments. Nevertheless, the interactions are complex, and it would be rash to try to fit decisionmaking in Malawi into one master strategy. Decisions are made from an amalgam of long-run and short-run, political and economic, and personal and corporate motives.

B. Public Investment

According to its public pronouncements, the Government of Malawi is dedicated to promoting economic growth through the expansion of the private enterprise economy. Nevertheless, the public sector's share in economic activity has been relatively constant over time, averaging 22 percent of gross domestic expenditures (GDE), 14 percent of gross domestic consumption, 54 percent of gross domestic investment, and 35 percent of gross domestic savings. More importantly, if private sector means private ownership, there is only a very small private sector as such in Malawi. As indicated in the discussion of economic organization, there are rather a series of enterprises, run like commercial firms, which have profitmaking as their primary objective and which are owned by various combinations of transnational firms, public holding companies, international development banks, and that uniquely Malawian institution, Press Holdings Ltd. Until recently, the success of these institutions in achieving Malawi's growth objective could not be doubted.

The relationship of public policies to private enterprise, market-oriented development is most clearly depicted with regard to the size and distribution of public investments. As shown in Table 7, the share of the public sector in total investment has been very high. Moreover, these figures understate the public sector's contribution, for they do not include the investments of ADMARC or MDC and their subsidiary companies or of the entire Press group. It is probable that if the investments of these large organizations were included, public sector investment would be closer to 75 percent of the total.

Table 7. Malawi Share of Investment Expenditure, 1964/1966-1979/1980 (percentages)

Year	Government	Public Enterprise	Private Monetary	Private Subsistence
1964-1966	NA	52	42	6
1967-1969	31	18	46	5
1970-1972	26	24	47	3
1973-1975	38	16	43	3
1976-1978	39	22	37	2
1979-1980	53	10	35	2

The functional distribution of Government development expenditures (not quite synonymous with capital formation) is presented in Table 8. As can be seen, the sectors of major Government investment have been in infrastructure (particularly roads, railways, and power) and in agriculture. The social sectors, particularly health, have been largely neglected. Of great concern is the dramatic increase in expenditure on projects with little economic return (Government buildings, particularly presidential residences, the new capital city, army barracks, and Kamuzu International Airport in Lilongwe). Nonproductive investments of this magnitude cannot be sustained by an economy as fragile as that of Malawi.

Table 8. Functional Distribution of Government Expenditures on Development Account (percentage shares)

Item	1967-1969	1970-1975	1973-1975	1976-1978	1979
Agriculture	28.4	25.2	21.7	17.1	15.7
Aviation	1.5	0.5	1.2	14.3	9.4
Railways	6.6	13.1	19.2	16.9	8.0
Roads	20.5	17.7	14.9	17.7	15.0
Power	1.5	7.0	2.8	6.6	6.7
Water	2.9	1.7	1.3	2.9	4.6
Posts & Telecommunications	3.5	3.0	4.7	3.8	1.4
Finance, Commerce & Industry	4.4	2.5	1.2	1.1	0.1
Works Organization	4.8	4.3	0.7	0.2	--
Education	9.3	6.8	2.6	5.1	5.4
Health	1.3	0.8	3.7	1.5	2.2
Housing	4.2	1.6	1.8	1.5	0.4
Community Development	1.3	--	0.3	--	0.1
Government Buildings	5.1	4.3	13.7	7.4	25.9
New Capital	4.2	10.5	5.0	1.7	2.8
<u>Summary</u>					
Basic Infrastructure	39.8	46.8	43.6	48.1	35.9
Other Economic	32.8	27.7	22.9	18.2	15.8
Social Infrastructure	16.1	9.2	8.4	8.1	8.1
Buildings and Aviation	9.6	14.8	19.9	23.4	38.1

C. Pricing Policies

Pricing policies are a second means through which the Government has shaped the development of the private sector in Malawi. With a few notable exceptions, prices in Malawi reflect opportunity costs. However, the Government plays a major role in setting prices for a significant percentage of goods and services produced by the society. In part, this is justified by the small market size of the economy and the prevalence of monopolies or near monopolies in many of the key industries.

Perhaps the most distinctive aspect of pricing policies in Malawi has been the ability to keep nonmarket forces from pulling wages out of line with the opportunity costs of labor. By contrast, the wages of African workers in manufacturing in Zimbabwe were twice those of all manufacturing workers in Malawi, while similar ratios were three times in Zambia, 2 1/2 times in Kenya, 60 percent higher in Tanzania, and 30 percent higher in Swaziland.

Neither wages nor labor costs per unit of output have risen nearly as fast as have consumer prices, prices for imported goods, or prices of internationally traded commodities. Consequently, Malawi's costs of production are very low for many industries, making Malawi's goods competitive on world markets. The major consequence of this wage restraint has been a dramatic increase in wage employment of over 5 percent per year compared with GDP growth of 5 percent.

The wages of skilled personnel average between 20 and 40 times those of the unskilled. While such a disparity may reflect inequities in the economy, it also reflects efficiencies, as the shortage of skills makes skilled labor extremely valuable. Moreover, the gap is largely due to low wages for unskilled workers rather than high wages for skilled workers (the upper scale averages $10,000 per year).

The major policy failure has been in agricultural prices, which have favored the production of certain crops over others. Estimates are that in 1977, ADMARC was subsidizing rice producers between 54 to 117 percent, depending on location, taxing groundnut producers about 130 percent, cotton producers by 26 percent, and tobacco producers a whopping 270 percent. At the same time, fertilizers were supplied to smallholders at about 15-20 percent below import price. Despite numerous complaints by the donor community, agricultural prices continue to be so low as to discourage production of groundnuts, cotton, and tobacco.

As a consequence of the low prices for groundnuts, they are no longer an important source of foreign exchange. Had production been encouraged, the financial woes of the country might not be as serious as they are today. Low cotton prices have also discouraged production and resulted in an apparent loss of foreign exchange. However, the low prices are also in place to support the country's only textile mill, David Whitehead Ltd., which buys a large percentage of the produce.

Tobacco pricing represents the most interesting case. Smallholders selling to ADMARC receive less than one-fifth the world price although profit margins on tobacco still exceed those on virtually every other crop.[5] Malawi has been the world's leading exporter of dark fire-cured tobacco and, therefore, must act as a monopolist, keeping production low in order to keep prices high. If prices to producers (who are not monopolists) were allowed to rise to reflect world prices, it would be difficult to control output.

The price of money has also been subsidized by the Government. Interest rates vary from 8.75 percent for savings deposits to 15.75 percent for mortgages on commercial property. Credit for small farmers has been 15 percent for individuals and 10 percent for groups. Given inflation rates of around 15 percent, most interest rates have been negative in real terms, for most of the period under discussion. Malawi's standby agreement with the IMF calls for reviewing interest rates, and given the current scarcity of credit, interest rates are likely to rise.

In the fields of education and health, fees are charged for the public services provided, but these have not come close to covering costs. The same can be said of Air Malawi, as fares have been subsidized, leading to fiscal difficulties.

Tariffs on railways also do not cover costs and Malawi Railways continually operates at a loss. However, railway tariff setting is complicated because railway fares in Mozambique, the route which provides Malawi with its principal access to ocean ports, are determined in part by rates in Malawi. Thus, to save foreign exchange, the Government has kept its own tariff structure artificially low.

Price controls exist for eight staple commodities, used primarily by low-income groups, and prices on most other

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[5]There are three main varieties of tobacco grown in Malawi: flue-cured, which is an estate crop; burley, also an estate crop but with potential for smallholder cultivation; and dark fire-cured, which is a smallholder crop. The estates do not market their production through ADMARC and thus receive current world market prices for their crops.

commodities can only be raised after submitting requests to the Ministry of Trade and Industry. Price increases need to be justified by cost increases, which can then be passed on with a fixed mark-up. In general, this is not an unreasonable requirement as many firms monopolize their markets and, as stated earlier, Government control prevents widespread monopoly profits. With spiralling inflation in recent years, however, the three- to six-month delay in acquiring approval for the price increases has significantly penalized productive enterprises.

The Ministry of Trade and Industry also limits the profit margins wholesalers and retailers can apply to the goods they sell. This policy substantially reduces the profitability of the distribution sector, especially for small rural traders.

D. Trade and Industrial Policies

A third area in which public policies substantially influence private enterprise, market-oriented growth concerns trade and industrial policies. Trade policies in the form of tariffs and quotas perform three functions: provide tax revenue; discourage the importation of certain consumer goods, thus increasing foreign exchange savings; and tend to promote the development of import-substitution industries, also increasing foreign exchange savings.

There are no import quotas in Malawi and, in general, tariffs are low. Tariffs which do exist are used primarily to generate public revenue; secondly, to discourage the importation of such costly goods as petroleum and luxury items; and finally, as a means to protect infant industries.

Foreign exchange controls and exchange rates are additional components of a country's overall trade policy. Until recently there were no foreign exchange restrictions in Malawi. The recent foreign exchange crisis has changed that, and enterprises must now apply to the Reserve Bank of Malawi for licenses to import commodities. There are indications that this licensing procedure is leading to considerable delays, although there is no evidence of refusals to grant licenses. In the garment industry, for example, firms reported that it takes about four months to get foreign exchange approvals and that a six-month supply of materials is stockpiled. Delays have a severe effect on profitability for Malawian firms which are forced to hold, in the best of times, large inventories of imported goods as insurance against transport interruptions which plague railway and port services in Mozambique.

Malawi's exchange rate is pegged to the Standard Drawing Rights and, following a recent devaluation of 15 percent, seems to reflect the real opportunity cost of foreign exchange. The Government seems willing to adjust foreign exchange prices to keep Malawian prices in line with world markets and to encourage export growth and profitability.

Industrial policies in general complement trade policies by providing additional incentives for industries which have been deemed critical to the economic needs of the economy. In the early years of independence, the Government encouraged the growth of import-substitution industries. Given the low labor costs and the high international transport costs, the majority of these industries were quite efficient and substantially added to the growth of the economy, while resulting in considerable savings of foreign exchange. The major constraint to such production is the limited size of the market. (In other words, products which require large-scale plants in order to produce at a reasonable cost are not efficient for Malawi.) More recently, the Government has had to examine export promotion opportunities more closely to help solve its financial dilemma.

The growth of the sugar industry in Malawi, in particular its shift from an import-substitution to an export-oriented industry, clearly reflects the change of emphasis in public policies associated with trade and industrial development as well as the inherent risks to developing countries attempting to compete on the international market. Sugar production in Malawi dates back to 1965 when the Sugar Company of Malawi (SUCOMA) was formed to operate a sugar estate and refinery. The factory began production in 1966 with 3,500 metric tons of sugar. Since that time, production has rapidly expanded and total output reached 184,000 metric tons.

Initially sugar production levels were planned to supply local consumption only. (In 1965, 19,000 short tons of sugar were imported by Malawi.) By the mid-1970s, however, it became apparent that the industry could also become a lucrative source of foreign exchange earnings. Access to the U.S. and EEC markets encouraged the Government and Lonrho, the foreign firm with joint equity in the sugar estates, to significantly expand production. The expansions, which included a second sugar estate and refinery, began to operate at full capacity only last year. However, sugar exports developed into a major foreign exchange earner in the late seventies.

The future of the enterprise looked very promising until the bottom dropped out of the international sugar market in early 1982 and the U.S. Government established import quotas which sharply cut back the level of Malawi's exports to its largest international market. As a consequence, the industry is facing a severe financial crisis and the economy, a further deterioration of its weak balance of payments position.

E. Parastatals

As noted above, the role of parastatals is pervasive in Malawi. In general, these enterprises operate efficiently and prudently. The financial performance of parastatals is detailed in Table 9. Not all of them should be viewed as profit-making entities. Enterprises such as Blantyre Water Board, Malawi Housing Corporation, and Kasungu Flue-Cured Tobacco Authority (KFCTA) are mainly responsible for providing services. More important than making a profit is not operating at a loss. The biggest offenders in this regard are Air Malawi, which has revamped operations recently by raising domestic fares and eliminating transcontinental routes, and KFCTA which is clearly in trouble. The largest parastatals--ADMARC, MDC, Electricity Supply Commission, and Malawi Railways--show acceptable levels of profitability, debt equity profiles, and cash flow. Undoubtedly, recent developments have reduced the financial standing of all of these enterprises, as it has of most private firms, and there is a need to upgrade the levels of management and revamp prices in some of the statutory bodies.

F. Public Finance

At independence, Malawi's public finances were in desperate shape. Since 1964, the Government has increasingly improved its tax and savings performance. Tax performance in Malawi is very efficient. The effective tax rate and the prescribed tax rates are very close. Direct taxes are probably somewhat regressive although the rate structure is progressive. This is due to the minimum tax which is assessed on all adult male Malawians. Given average family income of smallholders of about MK250 per year, the flat rate of MK3.50, or $3, represents 1.4 percent. Wage earners at this lower end of the wage scale pay income tax rates of about 3.0 percent, while wage earners at the higher end were paying about 20 percent. Companies, after allowing for very generous depreciation allowances, were paying an average tax rate of 37.7 percent in 1976/1977. (The prescribed rate has since been raised from 45 percent to 50 percent).

Overall budget deficits have been on the order of 80 percent of Government investment, of which four-fifths was financed by external sources, and one-fifth by domestic borrowing (or about 2 percent of GDP). However, the 1981/1982 budget shows a recurrent account deficit of MK55 million coupled with a MK193 million capital account from a total budget of MK406 million. Clearly, Government finances have deteriorated seriously in the last three years.

Table 9. Summary Accounts of Principal Public Enterprises, 1970-1978 (averages)

	1978 Total Assets (Million MK)	Current Ratio	Profit-ability	Savings Invest-ment	Debt Equity	Growth of Assets (1978/1970)
ADMARC	162	5.06	15.4	5.00	0.19	11.9
Air Malawi	14	0.82	-16.1	-0.80	7.34	2.8
Blantyre Water Board	12	1.47	1.8	0.75	2.88	2.2
Capital City Development Corporation	40	1.23	-0.3	0.10	7.18	5.0
Electricity Supply Commission	73	0.62	4.7	0.45	4.56	6.0
Kasungu Flue Cured Tobacco Authority	9	2.61	-9.9	-0.08	17.35	8.2
Malawi Development Corporation	63	1.17	6.3	1.00	1.98	8.5
Malawi Housing Corporation	35	2.80	1.4	0.44	3.46	4.5
Malawi Railway	44	1.15	2.2	0.58	2.31	1.3
Total/Mean	452	2.66	7.0	0.74	1.6	4.8

G. Conclusions

On the whole, public policies have led to efficient and reasonably equitable growth from the period 1964-1980. Malawi has developed an amalgam of public and private enterprise which has spurred growth in industry, agriculture, and the service sectors. Public policies, in general, have been pragmatic and economically rational, and the public/private enterprises exhibit a great deal of efficiency both internally and in terms of overall resource allocation. Malawi has been extremely successful in its mobilization of both domestic and foreign resources, and that has spurred the growth process.

The financial system was heavily burdened and the boom of 1975-1977 led to a substantial overextension in every area of the economy--private, parastatal, and public. When the international environment deteriorated, the system's financial and managerial weaknesses were exposed, and the resulting collapse has been disastrous. What is unclear at this stage is the degree to which the unfortunate decisions taken in the recent past reflect a systemic weakness or rather a set of misjudgments about the international environment that could have been made in any economic system. Whatever the truth might be, there is every reason to believe that Malawi's chastened leadership is ready to profit from their mistakes and move the economy once more on a long-term growth path. It may be the case, however, that a changed world economic system will not be as amicable to growth in a primary-producing landlocked country. Malawi's future may very well be hostage to economic events in the United States, Great Britain, South Africa, Saudi Arabia, and elsewhere.

III. IMPACTS OF POLICIES AND INTERVENTIONS

A. Capital Markets

1. Credit Policies

A paramount feature of economic growth in Malawi has been the ability of the economy to increase its capital stock. In this respect, the performance of financial markets has been central to the country's long history of success.

The growth of credit and money is detailed in Table 10. Notice that total credit as a proportion of GDP was no greater in 1979/1980 than it was in 1967/1969, although its composition changed dramatically, as Malawi went from a creditor nation to

Table 10. Malawi Credit and Investment, 1967-1981

Item	1967-1969	1970-1972	1973-1975	1976-1978	1979-1981
Millions Current Kwacha					
Net Foreign Assets	12.8	22.0	45.2	-7.5	-77.5
Domestic Credit	22.2	31.0	63.1	152.5	308.8
Money Supply	24.5	33.1	58.5	67.8	95.4
Money & Quasi-Money	10.4	15.9	33.3	50.2	88.9
Millions 1980 Kwacha					
Net Foreign Assets	35.5	50.7	83.4	10.7	-77.5
Domestic Credit	61.5	7.14	116.4	218.2	308.8
Money Supply	67.9	76.3	107.9	97.0	95.4
Money & Quasi-Money	28.8	36.6	61.4	71.8	88.9
Monetary GDP (current prices)	135.7	199.5	319.9	450.4	923.7
Investment	37.2	74.5	123.1	198.0	296.0
Key Ratios					
Domestic Credit/GDP	0.164	0.155	0.197	0.339	0.334
Money/GDP	0.181	0.166	0.182	0.151	0.103
Total Credit/GDP	0.258	0.266	0.339	0.322	0.250
Money & Quasi-Money/GDP	0.257	0.246	0.287	0.262	0.198
Total Credit/Money & Quasi-Money	1.00	1.08	1.18	1.23	1.26
Investment/GDP	0.274	0.373	0.384	0.440	0.348
Total Credit/Invest.	0.94	0.71	0.88	0.73	0.78

a debtor nation. Money supply growth has been slow, and the ratio of money to GDP has actually decreased over the period. The same cannot be said for both domestic credit and quasi-money, which have expanded much faster than any other monetary aggregates.

The share of investment expenditure and the flow of investment funds among the leading sectors are presented in Table 11. As can be seen in this table, the foreign sector and the smallholder sector are the only sectors that have provided savings in excess of needs. Private monetary investment, which has averaged 40 percent of total investment in the postindependence period, has been financed in very large measure by funds generated within the sector. Smallholder savings were largely appropriated by the public enterprise sector, through ADMARC, for its investment program. The majority of foreign capital inflows went to the Government to finance its investment expenditures.

While the rapid expansion of credit significantly contributed to economic growth during this period, it also allowed for the emergence of highly leveraged firms which are extremely vulnerable to economic downturns. In no sector was this credit expansion and its deleterious effects more pronounced than in tobacco. Over 90 percent of the MK88 million of commercial advances to agriculture outstanding as of December 31, 1980 went to the tobacco estates. Of MK76 million in advances to the tobacco sector from the National Bank, MK45 million were seasonal with the remaining MK31 being longer term. A striking feature of the tobacco sector's seasonal debt is that 33 percent was carried over from the previous year, 19 percent was carried over from the previous two years, and 17 percent was carried over from an even longer period. The rapid expansion of tobacco estates on what was essentially a no-equity basis has led to financial disaster. Profits on tobacco estates are very sensitive to international prices and the combination of reduced prices, indifferent management, and substantial debt service burdens led to widespread insolvency in the tobacco sector and drying up of credit availability elsewhere.

In searching for explanations of the current liquidity crisis facing the economy, and the tobacco industry in particular, public policies narrowly defined shed little light on the problem. Rather, the roots of the present dilemma can be traced back to the political economy of the society. The history of Spearhead Enterprises Ltd. portrays in dramatic fashion the incestuous relationship of the public sector and the private sector in Malawi.

Table 11. Malawi Share of Investment Expenditure, 1964/1966-1979/1980
(percentages)

Year	Government	Public Enterprise	Private Monetary	Private Subsistence
1964-1966	NA	52	42	6
1967-1969	31	18	46	5
1970-1972	26	24	47	3
1973-1975	38	16	43	3
1976-1978	39	22	37	2
1979-1980	53	10	35	2

Flow of Funds
(net saving as a percentage of total saving)

Year	Government	Public Enterprise	Private Monetary	Smallholder	Foreign Sector
1964-1966	NA	-82	-4	0	+86
1967-1969	-48	-12	-14	0	+74
1970-1972	-25	-17	-14	+6[1]	+50
1973-1975	-27	-11	-16	+7	+47
1976-1978	-29	-18	0	+12	+35
1979-1980	-39	-14	-2	+5	+50

[1]After 1970, ADMARC trading margins are attributed to smallholders.

Spearhead Enterprises closely resembles Press Holdings Ltd., which was described earlier. It is directly linked to the Malawi Congress Party through its youth wing, the Young Pioneers. At the top of the Spearhead-Young Pioneer pyramid is President Banda. The history of Spearhead dates back to 1968, when the Young Pioneers undertook responsibility for running a petrol station in a remote corner of Malawi where no private operator could be found. This first commercial venture was soon followed by others as a means for fulfilling the objectives of the organizations to train young people in modern methods of agriculture and industry.

The phenomenal growth of Spearhead Enterprises in the mid-seventies pushed its original objectives far to the background. By 1978, Spearhead owned 20 tobacco estates (mostly in the remote areas of the country), a tea estate, a coffee estate, a cattle ranch and a dairy, a garment factory, an air charter business, an entertainment center, a large transport fleet, a commercial garage, and numerous properties. All of these operations were funded by bank overdraft under Treasury guarantee. This would be a most unusual form of operation for a private enterprise but an understandable one given the President's own interest in the firm.

In 1978, questions were raised regarding the legality of Spearhead's mode of operation and Treasury guarantees were withdrawn. By this time, however, the situation had gotten out of control and the flimsy foundation on which Spearhead built its empire was exposed. The decline in tobacco prices accentuated the demise of the enterprise and on April 11, 1980, Spearhead was placed in receivership at the behest of the Life President.

In many respects the tobacco sector and Spearhead reflect the problems facing Malawi today. Certainly most economic sectors are not as debt-ridden as tobacco, and clearly most of the hybrid firms are better run and on a sounder footing than Spearhead. Yet, tobacco and Spearhead are reflections of the economy as a whole and the ADMARC/Press/MDC connection in particular. Malawi's outstanding success, closely linked to the growth of its financial markets, has become the source of its undoing. However, the good news is that the condition is not terminal. Just as the Government acted prudently in the end in treating Spearhead as a commercial firm and prescribing to it a severe dose of commercial salts, there are strong indications that similar cures are being accorded Press, ADMARC, and MDC.

Price-Waterhouse is currently studying the debt structure of Press Holdings, and there is evidence that management changes and perhaps divesture of unprofitable firms will be the result. Moreover, the Government seems ready to accept the severe financial medicine offered up by the IMF and IBRD. (One hopes that those two physicians make similar diagnoses and offer similar treatments.) AID has been approached to provide managerial and technical consultants to the large holding companies to assist in restructuring and refinancing some of their enterprises. There is every expectation that the economy that emerges from these difficulties will be a stronger and more resilient one than the economy that entered them.

2. Donor Interventions

Donor efforts have played a small but very significant role in the evolution of capital markets in Malawi. Donor assistance to INDEBANK, described in an earlier section, is one such example. Perhaps the most significant contribution to capital market development has been the activities of the Commonwealth Development Corporation (CDC). Formed in 1948, CDC has grown into an international organization with investments of approximately U.S.$700 million in virtually all parts of the developing world. CDC works closely with the British High Commission which administers overseas development assistance, and in operational style closely resembles the IFC, combining the discipline of private enterprise with developmental concerns.

During the 1960s, CDC activity in Malawi was limited to a few efforts. One of its earliest ventures was the David Whitehead textile factory established in 1967. CDC was one of the original equity participants in the venture and in addition provided loan funds for the initial operation. Since that time, CDC has sold its equity share to Press but actively participated in the continued expansion of the firm, providing sizable loans in 1974 and 1982 for increasing production.

With the assistance of the Government and CDC, David Whitehead has grown into a successful import-substitution enterprise. The original plant started with annual consumption of 3,000 bales of locally produced cotton which, through a series of expansions, has been increased to 24 million bales of cotton. The mill started with 800 employees but has grown to 2,800. While the majority of the textiles are marketed locally, exports to neighboring countries now total U.S.$3 million per year.

In the early 1970s, the favorable business climate in Malawi encouraged CDC to dramatically expand its activities. During this period, CDC was instrumental in establishing INDEBANK, but also expanded its loan and investment activities into a wide range of enterprises, many of which had direct links to the agricultural sector. Currently, CDC has outstanding loans of approximately U.S.$130 million and equity investments of around U.S.$3 million. While not all of these investments are operating in the black, there is little doubt that CDC is substantially contributing to the economic growth of the country.

B. Manpower Development

One of the most critical problems facing developing nations is the scarcity of trained manpower. This pattern of underdeveloped human resources is largely due to the weak educational infrastructure that exists in many of these countries. It also reflects the immigration policies adopted by colonial regimes that encouraged the use of foreign workers to overcome specific labor shortages. More often than not these immigrant communities came to dominate certain sectors of the economy such as trade and small enterprise activities.

Malawi is no exception in this regard. When the country achieved independence in 1964, there were only 33 African citizens with college degrees. Of 895 authorized positions in the top three categories of its newly "independent" civil service, only 61 were filled by Africans. In this same year, 2,000 pupils out of a total population of 4 million were enrolled in secondary schools.

1. Education Policies

Since independence, Malawi has made steady progress in improving its educational institutions and placing qualified Malawians in key positions both in the public and private sectors. Table 12 illustrates the growth of student enrollments in secondary and post-secondary institutions. As the table points out, there has been more than a 100-percent increase in the number of students enrolled in secondary schools from 1965 to 1980; almost a 200-percent increase in vocational and technical schools from 1970 to 1980; and a 54-percent increase in university enrollments in the past decade. While these pertcentages are impressive, they start from a very low base and fall far short of supplying the necessary manpower to develop the modern sectors of the economy.

The shortfall in trained manpower in Malawi has been filled for many years by the employment of expatriate personnel. A 1971 manpower survey, summarized in Table 13, reported that expatriates occupied 63 percent of the senior positions in the public sector. Moreover, a substantial number of vacancies existed at this level. At the intermediate and lower skill levels, Malawians occupied 50 percent to 95 percent of the positions.

Table 12. Growth of Student Enrollments in Secondary and Postsecondary Institutions, 1964-1980

Type of Institution	Number of Students Enrolled 1965	1970	1975	1980
Secondary	7,928[1]	11,008	13,900	16,488
Vocational and Technical Schools	NA	236	529	694
University of Malawi	NA	1,051	1,228	1,620
Government Training Colleges	NA	454	638	N/A

[1]Immediately following independence, a very ambitious program to expand secondary school education was initiated. This accounts for the large jump in student enrollments from 1964 (2,000) to 1965.

Source: Economic Reports (1971-1981).

Since 1971, significant progress has been made in the localization of the top managerial and technical positions in both the public and private sectors. More recent manpower surveys, which unfortunately use different categories than the 1971 survey, highlight this trend. As Table 14 illustrates, the percentage of senior civil service positions filled by Malawians has increased from 37.4 percent in 1971 to 70 percent in 1979. A separate study conducted in 1979, and once again using different categories, does not show such an appreciable rise in the percentage of Malawians serving in top management positions in the civil service (see Table 15). This same study goes on to point out that Malawians fill fewer than 40 percent of the top management positions in the private sector.

Malawi's gradual approach to the localization of key personnel within the Government and the economy, in most respects, has been quite successful. However, some of the consequences of the strategy have proved to be a mixed blessing. In the trade sector, for instance, efforts to replace Asians--whose domination of trading activities dates back to the colonial period--with Malawians of African origin have disrupted the flow of goods to rural areas. Many retailers in the more

Table 13. Senior-, Intermediate-, and Skilled-Level Manpower Distribution by Citizenship Status in Public and Private Sectors, 1971

Occupational Levels[1]	Public and Private						Public						Private					
	Total		Malawian		Non-Malawian		Total		Malawian		Non-Malawian		Total		Malawian		Non-Malawian	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1 and 3 Senior Level	1,706	100.0	382	22.4	1,324	77.6	621	36.4	232	37.4	389	62.6	1,085	63.6	150	13.8	935	86.2
2 and 4 Intermediate Level	14,858	100.0	12,392	83.4	2,466	16.6	11,151	75.1	10,527	94.4	624	5.6	3,707	24.9	1,865	50.3	1,842	49.7
5, 6, & 7 Skilled Level	31,186	100.0	26,962	86.5	4,224	13.5	14,028	45.0	13,843	98.7	185	1.3	17,158	55.0	13,119	76.5	4,039	23.5
All Levels	47,750	100.0	39,736	83.2	8,014	16.8	25,800	54.0	24,602	95.4	1,198	4.6	21,950	46.0	15,134	69.0	6,816	31.0

[1]Key to occupational levels:
1. Top Management
2. Middle and Junior Management
3. Professional Occupations
4. Technical Occupations
5. Skilled Craftsmen and Artisans
6. Other Office Workers
7. All Other Occupations

Source: OPC Manpower Survey (1971).

Table 14. Localization Trends in the Senior Civil Service, 1971-1979

Year	Total No. of Positions	Malawian Officers	Non-Malawian Officers	Vacancies
1971	3,490	1,839	899	752
1976	4,899	3,070	724	1,105
1979	5,101	3,592	677	832

Source: Manpower Review, Overseas Development Administration (1980).

Table 15. Top Level Management Positions by Citizenship, 1979

	Total No. of Positions	Malawians	Non-Malawians	Vacancies
Public	1,211	746	174	291
Private	4,026	1,494	1,550	982

Source: World Bank Report (1979).

remote areas complain about the shortages of such basic items as sugar and soap and of their difficulties in trying to acquire these goods from the Government's wholesale distribution system.

The unintended consequences of the localization efforts have also had a deleterious effect on the operations of certain statutory bodies and quasi-commercial enterprises. The financial crisis facing many of these entities correlates with the replacement of expatriate personnel by Malawians. To be sure, the crisis facing these organizations cannot be solely or even mainly attributed to this change. However, the transition to Malawian personnel did broaden the range of factors taken into account in their decisionmaking process. The Malawians who took up these positions, unlike expatriates, were not simply technocrats charged with the responsibility of profitably operating an enterprise. Due to their prestigious position, the Malawians became, if they were not already, key actors in the political life of the nation. Major decisions, thus, were not interpreted solely on the basis of their economic viability but on their political impact as well. A recent Malawian director of Press Holdings quickly discovered this when he had the misfortune of explaining the near-insolvency of the enterprise to the President. He was quickly discharged from his responsibilities at Press and is now serving a jail sentence.

2. Donor Interventions

Increases in the availability of trained manpower and improvements in the education system have been substantially assisted by a variety of donors. In education, for instance, 83 percent of the development account expenditures have been financed by the donors. The IDA has been the largest contributor, financing five projects totaling over U.S.$100 million to improve primary and secondary school facilities and the training of primary school teachers.

The U.S. Government has also provided substantial assistance to the education system. During the 1960s, a significant percentage of secondary school teachers were Peace Corps volunteers. In terms of dollars spent, AID's efforts to improve postsecondary education in Malawi account for the largest share of U.S. assistance to this sector. In addition to its continuing support of the University of Malawi, AID's recent efforts related to manpower development have focused on local savings and loan organizations.

Numerous training programs have been assisted by the United Nations Development Program (UNDP), Canadian International Development Administration, Overseas Development Administration, the EEC, and the African Development Bank. However, as is the case with AID, the majority of other donor assistance went to the establishment and expansion of the University of Malawi. These efforts to assist the university have been critical to its overall development, but were not well coordinated.

In addition to improvements in the education system, donors have assisted Malawi in meeting its pressing manpower needs by financing the overseas education of Malawians. Here again, the United Kindgom has provided the greatest amount of assistance, granting an average of 100 new training awards per year. The number of Malawians being trained abroad has remained relatively constant at around 500 per year.

Aside from the direct assistance to the education system, donors have helped to ease the shortage of trained manpower in the country by financing the use of expatriates in these positions, primarily in the public sector. The United Kingdom has provided a large percentage of this assistance through its OSAS, BESS, and TCO programs. In 1980, these programs provided U.S.$7.5 million to finance 485 positions in key areas such as engineering, accounting, and the physical sciences. The size of these programs has gradually declined in the past decade (from 838 in 1970, to 567 in 1975, to 480 in 1980); however, the slack has been in great part taken up by the expanding UNDP technical assistance program.

C. Information

1. Institutions

Availability of accurate information is critical to the efficient functioning of the market. Firms seeking to enter a new industry or to expand an existing product line need reliable information about the size, shape, and growth potential of their prospective markets in order to make good investment decisions. In Malawi, the market information system is basically very informal. In a country this small, it is fairly easy to identify potential markets, competition, and sources of supply. Low wages and surplus labor skew choices of technology towards those that are labor-intensive requiring more in the way of management skill than technical information.

At the same time a number of formal information institutions do exist. The one with the oldest roots is the Malawi Chamber of Commerce, which has a 90-year history. Before independence, there were three different business organizations--one each for the Africans, the Europeans, and the Asians. At independence, they were merged into one Chamber of Commerce whose goal was to promote trade and provide a channel of communications between the Government and the business community.

To carry out this function, the Chamber publishes a newsletter which prints new regulations and tariffs, publicizes and reports on conferences, notes additions to the library, and includes long sections of trade inquiries offered and wanted. If the Government wants to immediately notify the business community of a new law or regulation, the Chamber will print a special handout and mail it to their members.

The Chamber also represents the problems of the business community to the Government. Through discussion, they present the private sector's views and attempt to influence legislation. The Government is represented on each of the Chamber's working committees which keeps up an active dialogue between them.

The most promising activities at the Chamber of Commerce are those undertaken by the Projects Committee which is responsible for identifying new business opportunities and linking them to prospective investors. As part of this service, they regularly distribute feasibility studies financed by such organizations as MDC and INDEBANK, but deemed too small for their own operations. In addition, the Chamber is in contact with the EEC's Center for Industrial Development and publicizes joint ventureship possibilities being explored by the Center.

Although the Chamber provides some useful services, its operations have had only a marginal impact upon private enterprise growth. It lacks a sufficient staff and an adequate budget to provide its services to any but a small group of entrepreneurs located in the surrounding industrial center at Blantyre. Moreover, most of its activities are targeted at a very narrow client group that is not always very impressed with the services provided.

The Malawi Export Promotion Council (MEPC) established in 1971 as a statutory body to promote exports of Malawi's products is a second formal information institution. The Council has received assistance through a program of the UN International Trade Commission (UN/ITC). The funds ran out last December and the Council's activities largely seem to have been suspended although a new project agreement is expected to be signed soon.

As does the Chamber of Commerce, MEPC publishes a newsletter, "Malawian Export Promotion News," which is quite similar to the Chamber's newsletter but with more of an export orientation. MEPC has a library (largely supported by UN/ITC) and presents seminars. Recent programs, presented by experts in the field, have been on customs documentation and import requirements.

In 1977, the Council developed the Strategic Export Development Plan in an effort to gather information from exporters. The strategy placed the burden of supplying information to the Council on the exporters themselves. As an indication of the Council's credibility and standing in the business community, the plan did not get off the ground.

The Council is also responsible for organizing and managing trade fairs, of which the regional fairs have been the most useful. The Council indicated that a very large number and variety of firms send participants or samples. However, several of the firms interviewed said that they had stopped sending participants and only sent samples because the fairs were "a waste of time."

The EEC has provided funds for MEPC to do market surveys in Zimbabwe, Zambia, and Tanzania with the goal of improving export performance by providing exporters with detailed information about potential markets. As a direct result of the Test Marketing Survey of Zimbabwe done in 1981, one Malawian company received initial orders with a value over MK100,000.

2. Donor Interventions

For the most part, the formal information system serves the medium to large businesses in Malawi, leaving an information gap for the smaller, mainly rural, enterprises. Some recent donor programs, such as Traders Trust assisted by USAID and SEDOM, just coming on stream with assistance from ILO, have been designed to bridge this gap. Nevertheless, it is the informal information network that continues to supply the small entrepreneurs with their information needs and to a significant extent fulfills the information needs of the medium to large businesses as well.

IV. CONCLUSIONS

President Banda is 84 years old, and an end to an era is slowly approaching in Malawi. Perhaps the most critical question facing the nation concerns its ability to continue to prosper without the leadership which he has provided. This eventual transition will be the true test of the policies so vigorously pursued by the President in his role as the nation's leading political figure.

The end results of these policies to date leave little doubt about their short- to medium-term success. When President Banda came to power, the newly independent nation of Malawi was poor, underdeveloped, and insolvent. Since that time, the nation has achieved a per capita GDP annual growth rate of 2.9 percent, the Government has shifted from a net dissaver to a net saver, employment in the wage sector has increased over 150 percent, and manufacturing output has almost doubled. These achievements are remarkable by any standard, but given the serious obstacles that Malawi faced at independence, must be considered a major success story.

The components of this success story are multiple and must include President Banda himself, but those features which are most striking include (1) a significant reliance on market forces to determine the allocation and use of resources, (2) the ability to mobilize capital (especially foreign aid), (3) a pragmatic approach to the use of foreign financial resources and expatriate management personnel, and (4) Government efforts to create an operating environment conducive to market development and for-profit business expansion.

Throughout much of its history, markets in Malawi largely determined the allocation and use of resources. Perhaps the most important aspect of this development concerns wage policies. The Government has made a commitment to keep wages in line with opportunity costs resulting in the efficient use of scarce capital and a significant increase in wage employment. For the most part, market forces have also been allowed to determine the growth and decline of public/private enterprises forcing a degree of economic discipline not characteristic of similar organizations in other countries.

Malawi's success can also be directly attributed to its ability to mobilize capital. The dramatic increase of savings, 358 percent from 1964 to 1980, clearly illustrates the magnitude of this change. The foreign sector, primarily concessional assistance, has played a crucial role in this growth. Nevertheless, the Government has made significant progress in its contribution to total savings, particularly if the contribution of ADMARC, MDC, and Press are taken into account. The Government alone has moved from -39 percent of total savings in 1964 to a contribution of +13.5 percent in 1980.

Despite the understandable political goal of wanting to transfer foreign domination of the domestic private sector to Malawian control, the Government has taken a very pragmatic approach to the use of expatriate financial and managerial resources. While encouraging the inflow of foreign capital, technology, and skills, the Government has, through its statutory bodies, gradually acquired control of the country's main assets. In addition, manpower development programs are adding to the number of trained Malawians enabling them to assume top management and technical positions both in the Government and the private sector. This transformation has been accomplished without scaring off foreign investors, and until recently without any noticeable impact upon the efficient functioning of the enterprises.

Finally, Government economic policies and public investment activities have been factors contributing to the overall success of Malawi's economy. An appropriate exchange rate, for example, has allowed the country to pursue export-promotion activities and efficient import-substitution at the same time. Public investments in improving the physical infrastructure have also been critical to providing enterprises a favorable climate in which to do business.

Unfortunately, the above policies have not been pursued with the same diligence throughout Malawi's postindependence history. Diversions from these rational and pragmatic approaches to economic development became much more frequent towards the late 1970s. As international conditions changed for the worse, the full impact of these transgressions was felt throughout the economy. Highly leveraged enterprises, particularly tobacco estates, became insolvent and a financial liquidity crisis struck the entire economy. It is difficult to separate the role of external factors from internal ones in accounting for the seriousness of the present-day situation. Nevertheless, the country did diverge from its market-oriented approach to development and the consequences were far-reaching.

A substantial portion of investments during this period went towards nonproductive enterprises such as Government buildings, a new international airport, Kamuzu Academy, and the new capital city of Lilongwe. Management of statutory bodies rapidly shifted to Malawians and decisions governing their investment policies became much more politicized as a consequence, leading to bad economic decisions in some cases. Political pressure was placed on financial institutions to provide loans to such high-risk ventures as tobacco estates. In an economy as fragile as that of Malawi, any one of these changes would have a noticeable adverse impact. The combination of the three made for a very serious situation. The downturn in the international economy spelled disaster.

All indications are that Malawi's chastened leadership is ready to profit from past mistakes. The Government seems ready to accept the severe financial medicine offered by the IMF and the IBRD. AID, in turn, has been approached to provide managerial and technical consultants to the large statutory bodies and other private organizations. There is every expectation that the economy that emerges from these difficulties will be a stronger and more resilient economy than the one that entered them.

APPENDIX A

THE EVOLUTION OF CAPITAL MARKETS AND INSTITUTIONS

I. GENERAL DESCRIPTION

The major financial institutions of the Malawi economy fall into the broad categories of publicly owned statutory bodies, variously owned commercial banks, internationally owned development institutions, and the unusual holding company, Press, which until recently was wholly owned by the President. In addition, of course, there are the central bank (Reserve Bank) and a variety of Government bodies, including the Post Office Savings Bank, that have financial functions that do not impinge directly on the business community and, therefore, are outside the scope of this inquiry.

A number of these organizations were in place prior to independence and formed the basic structure of the Government. They are British in origin and have proved sufficiently useful to be continued without significant change. In addition to the [illegible]nd the Post Office Savings Bank are the marketing [illegible] and service groups typical of a centrally run colony. They are still used as instruments of economic and, at times, political policy, and are an important and integral part of the economy.

Shortly after independence in 1964, several special-purpose organizations were added to the colonial inheritance. The Malawi Development Corporation (MDC) was one of the first, and was patterned on the International Finance Company (IFC). The 1960s were years during which development institutions enjoyed great popularity and a host of development banks (loans only) and development corporations (loans and equity) were started during this period. USAID sponsored feasibility studies for development banks in Senegal, Togo, and Somalia, to name but a few, in addition to financing the start-up of others.

Before the formation of MDC, and even before independence, Hastings Banda, as he was then known, had purchased a newspaper to serve as the voice of what later became the Malawi Congress Party (MCP). The paper operated profitably, and generated funds that were used by Dr. Banda in his political activities. This was the origin of Press Holdings Ltd., which retained much of its original concept as it grew to its present position of economic prominence. Press Holdings Ltd. has been described in various terms: as a parastatal (which it clearly is not), a development institution (which is open to question), and a successful conglomerate (which is not altogether true today, but certainly was true several years ago).

These initial development institutions were joined by an interesting transmogrification of the Farmers Marketing Board (FMB). In 1970, in an effort to increase agricultural productivity, the marketing function was expanded to include developmental farms designed to introduce new techniques and crops and to serve by example as profitable estates. The Agricultural Development and Marketing Corporation (ADMARC) now owns and operates over 40,000 acres, spread throughout the country and producing a wide variety of crops and livestock. In addition, ADMARC performs its original functions of providing inputs to the agricultural community and collecting, transporting, and marketing the production of smallholders, estates, and commercial farms.

To these indigenous development institutions was added the activities of the Commonwealth Development Corporation (CDC). Also added was an internationally funded development corporation, The Investment and Development Bank of Malawi, Ltd. (INDEBANK), which despite its title takes an equity position in some ventures and, from time to time, assumes management responsibility. CDC was operational in many parts of the world before Malawi's independence, and served as an example of profitable development activities, combining the discipline of private enterprise with humanitarian concerns. Formed in 1948, the CDC has grown to an international organization with investments of approximately U.S.$700 million, in virtually all parts of the developing world. In 1981, profits after expenses came to U.S.$17 million, which were transferred to the reserve account. This is the equivalent of capitalization, as CDC was established with no capital, but had authority to borrow from the British Government. The CDC works closely with the British High Commission, which administers Overseas Development Assistance (ODA), and frequently personnel are seconded from one to the other.

From CDC's activities in Malawi sprang the idea of a multinational group serving a complementary purpose. INDEBANK was formed in 1972 with shareholders from the United Kingdom (CDC), Netherlands (FMO), Germany (DEG), and Malawi (ADMARC). In 1978, the IFC joined the original group of shareholders, thus increasing the capitalization.

In addition to these five investment groups, the commercial banking sector provides the short-term funding necessary for commercial activity. The National Bank of Malawi was formed in 1971 by merging Barclays Bank and Standard Bank, both in competition prior to the merger. After the merger, each had a 10-percent share, while Press took 47.35 percent and ADMARC 32.65 percent. National Bank of Malawi is the larger of today's banks, with deposits of U.S.$130 million equivalent. The Commercial Bank of Malawi was originally formed in 1969, with the Banco Pinto da Soto Mayor of Portugal owning 60 percent, MDC 20 percent, and Press 20 percent. Around 1975, the ownership was changed, and the Portuguese interests were taken over. The restructured ownership includes Press with 40 percent, Bank of America with 30 percent, MDC with 20 percent, and ADMARC with 10 percent. Total deposits are now in the U.S.$85-million range.

Certain recurring ideas and practices emerge from a consideration of the growth of these institutions. Perhaps the most noteworthy is the lack of equity in so many enterprises, resulting in extremely highly leveraged (or as the British would say, highly geared) situations. This is obviously a function of the original scarcity of capital, since at the time of independence, there was little more than a subsistence situation relieved only occasionally by an expatriate estate. However, the CDC itself was originally started with no equity but only the power to borrow from the exchequer and the concomitant responsibility of servicing that debt. As a powerful and successful development institution, it had a significant influence both through example and through the provision of development technicians throughout the Malawi economy.

Equally prominent is the practice of risk sharing. Table A-1 from a recent international study vividly illustrates the phenomenon. It is not uncommon for many of the corporations in the country to have common shareholders and, in some instances, common directors. Management talent is frequently transferred from one corporation to another, and in a relatively small economy this appears to be both useful and necessary.

A third practice common to many enterprises is the inclusion of a foreign partner. This is evident in most of the larger concerns, and provides external capital, markets, management, and technology. In most instances, there appears to be a comfortable working relationship. Where harmony is absent, there are several instances of restructuring to eliminate one foreign partner in order to take on another and thereby improve the enterprise. The Commercial Bank of Malawi, in replacing its Portuguese interest with Bank of America, is a case in point.

And, finally, each enterprise has a goal and a purpose very much its own, despite its ownership. Business decisions are frequently made with the interests of the company foremost in mind rather than those of the shareholders. Thus, when the Import and Export Company of Malawi, owned 51 percent by MDC and 49 percent by Press, made a profit last year, not all of it was paid out in dividends despite the critical need for liquidity by both MDC and Press.

In the following section, the development of these financial institutions will be treated in greater detail. However, it should already be apparent that the Malawi economy has evolved a sophisticated and, at times, quite complex series of institutions to carry out the policies of Government and, to a

Table A-1. Malawi Holding Companies' Shares in Selected Industrial Firms (in percentage of total share capital)

Industrial Firms	MDC	Press	ADMARC	INDEBANK
Milling, Food and Beverages				
ADMARC Canning Co.			100	
Carlsberg Malawi Brewery	27	23		
Cold Storage Co.	100			
Chibuku Products Ltd.		30		
Dwanga Sugar Corporation		20	38	
Grain and Milling Co.		50	50	
Lever Brothers (Malawi) Ltd.			20	
Malawi Distilleries Ltd.	40.8	20		
Malawi Tea Factory Co.			40	
National Oil Industries Ltd.	30	20	50	
Press Bakeries Ltd.		100		
Sugar Corporation of Malawi Ltd.		29	43	
Southern Bottlers Ltd.				2
BAT (Malawi) Ltd.				24
Textiles and Leather				
David Whitehead & Sons (Malawi)	29	20		
Merolga Knitwear Ltd.	51			
Bata Shoe Co.			49	
Cotton Ginners Ltd.			49	
Press & Shire Clothing Ltd.		100		
Press Fashions Ltd.		100		
All Other Industries				
Agrimal (Malawi) Ltd.	40	40		
B & C Metal Products	25			
Can Makers Ltd.	100			
Encor Products	23.3			
Enterprise Containers		30	20	30
Brick and Tile Co.	66.7			
The Match Co. (Malawi)	26.3			
Malawi Motors Ltd.	51	49		
Nzeru Radio Co.	64.5	31.25		
Nzeru Record Co.		100		
Optichem (Malawi) Ltd.			20	20
PEW (Metal Products) Ltd.			50	
Pipe Extruders Ltd.	26.3			
Plastic Products Ltd.	100			
Portland Cement Co.	49		50	
Press Engineering Ltd.		100		
Press Furniture & Joinery Ltd.		100		
Press Steel & Wire Ltd.		50		28.6
Packaging Industries (Malawi) Ltd.	76.3			
Memo Items				
Commercial Bank of Malawi, Ltd.	20	40	10	
National Bank of Malawi, Ltd.		47.35	33	

remarkable degree, to serve the interests of the private sector as well.

II. DEVELOPMENT OF SPECIFIC INSTITUTIONS

A. Malawi Development Corporation (MDC)

MDC was established by one of the first acts of the new Malawi Government in 1964, under the direct responsibility of President Banda. Its original purpose was extremely broad, and covered new enterprises in agricultural, commercial, industrial, and mineral resources. Funding was initially by interest-free loans from the United Kingdom, together with whatever other donor assistance could be scraped together. Emphasis was on import substitution for which there were many profitable opportunities. This initial configuration was modified into a limited liability corporation in 1970, with the Malawi Government holding the shares. President Banda is still the minister responsible for MDC, which has grown into a holding company for corporations. Its assets total U.S.$100 million, with annual sales in excess of U.S.$110 million, and its employees number almost 8,000. A look at the early days of MDC will provide an insight into how both MDC and the economy itself managed to grow.

Initially, MDC sought assistance from foreign companies as partners in what were basically import-substitution enterprises. In 1965, Malawi Distilleries Ltd. was formed with Gilbey Distillers and Vintners (Pty) Ltd. of South Africa, which in turn was wholly owned by International Distillers and Vintners Ltd. of London. Press took 20 percent, MDC took 40.8 percent, and Gilbeys had 39.2 percent together with the management contract. This operation was capitalized at MK250,000, a very low figure even for 1965, but with borrowings through the commercial banks, trade credit, and a plow-back of earnings, the operation moved ahead swiftly, and sales are now in the U.S.$2-million range. It is quite profitable, and the three partners are still operating with the same ownership ratio, while almost the entire payroll of management and staff is local.

However, the 1980 Annual Report for Malawi Distillers, Ltd. indicates that there are constraints to profitability and growth that one would not expect from a company controlled by MDC and Press, both of which are directly responsible to the President. The principal constraint is a regulated price structure, and the Annual Report goes on to say that "capital expenditure was largely deferred because of inability of the company to obtain price increases on locally produced drinks. When satisfactory profitability is achieved, the company intends to produce potable ethyl alcohol in Malawi, at Dwangwa, which will save a considerable amount of foreign currency." This is not the voice of a tame public enterprise, nor is MDC run like one. However, the current policy of the Government to restrain price increases in an effort to dampen inflation has been imposed more or less even-handedly over the entire economy, and statutory bodies are no exception.

Similar joint ventures with other international partners were undertaken in the early years. Another typical example was the Carlsberg Malawi Brewery Ltd., formed in 1966. Again the partners were MDC and Press, with the foreign partner United Breweries of Denmark. Share ratios have changed slightly, with recapitalization associated with several expansions, but currently MDC owns 27 percent, Press 24 percent, and United Breweries 49 percent.

During the early years of Carlsberg, another phenomenon occurred that is typical of the financial structure that has developed since independence. Southern Bottlers Ltd. was formed and acts as distributor for Carlsberg and manufacturer of Coca Cola, Fanta, and a range of local nonalcoholic sodas. Carlsberg, itself a property of three holding or investment companies, became an investment company in its own right by taking 49.8 percent of Southern Bottlers. INDEBANK came into the picture with 2 percent equity, while the remainder of the shares appears to be held outside the country. It can be seen that INDEBANK's 2 percent becomes critical in any shareholder dispute, and though its participation from a monetary point is hardly significant, its reputation for unbiased and apolitical judgment makes it an ideal arbitrator.

Carlsberg went on to expand its role as an investment company, taking 26.3 percent of Malawi Hotels, Ltd. and 16 percent of Capital Hotels Ltd., a financial maneuver that was repeated frequently in the history of the country's corporate growth. Malawi Hotels was formed in 1967 by MDC, with CDC participation in equity and loans. The mix was then MDC 47.4 percent, CDC 26.3 percent, and Carlsberg 26.3 percent (MDC still owns 27 percent of Carlsberg, it will be recalled). It is curious to note that though MDC owns, in effect, over 50 percent of the equity of Malawi Hotels, the manner in which it is held--less than controlling interest in either Carlsberg or Malawi Hotels--denies it control. A series of hotels was bought or built by the new company, and a management and development contract was entered into with Hallway Hotels Overseas Ltd. of London. This contract was considered advantageous to all and lasted until 1981, when, after several years of losses, a new group from London (Landmark International) was engaged.

Another twist to this increasingly complicated series of investments came in 1970 when Malawi Hotels started Airport

Caterers Ltd., with Air Malawi and NAS (the former airport catering service) as partners. Thus, we have MDC owning part of Carlsberg which owns part of Malawi Hotels which owns part of Airport Caterers. This particular example was selected as typical of the investment pattern in Malawi, and illustrates how the principal players are frequently involved. Here we have Press as partner in Carlsberg, INDEBANK as swing vote in Southern Bottlers, CDC as lender and equity participant in Malawi Hotels, and within this sequence, three foreign corporations as participants: Carlsberg (Danish), Coca Cola (United States), and Hallway (United Kingdom).

Table A-2 lists MDC holdings, which will give a more complete picture of its investments. MDC has recently suffered a setback in earnings, partially due to severe management problems.[1] The scarcity of broadly trained senior management is a critical feature of the investment scene, and it is to Malawi's credit that there is no compunction in using expatriate assistance when needed.

B. Agricultural Development and Marketing Corporation (ADMARC)

Originally the Nyasaland Tobacco Board, and later the Farmers Marketing Board, ADMARC came into its present configuration in 1971. ADMARC is a statutory body, whose shares are

Table A-2. Malawi Development Corporation Holdings

Company	MDC Ownership (percentage)	Other Owners	1980 Sales (million MK)
The Brick and Tile Co.	66.7	Closed--Equip. Sold to S. African Firm	
Pipe Extruders Ltd.	30.0	Multi-Construction--Monaco	1.9
Portland Cement Co.	50.0	ADMARC	12.7
Match Co. (Malawi) Ltd.	30.0	Wilkinson Match--U.K.	N.A.
Nzeru Radio Co. Ltd.	68.8	Company sold to Local Investors	
Commercial Bank of Malawi	20.0	Press, Bank of America	N.A.
Development Finance Co.	87.8	Unknown	N.A.
National Insurance Co. Ltd.	20.0	Press, GRE--London	N.A.
Carlsberg Malawi Brewery	27.0	Press, United Breweries, Denmark	8.9
Cold Storage Co. Ltd.	100.0		3.8
Fresh Cold Fisheries Ltd.	84.9	Unknown	1.1
Malawi Distilleries Ltd.	40.8	Press, Grand Metropolitan (U.K.)	2.1
National Oil Industries Ltd.	30.0	Press, ADMARC	1.9
Agrimal (Malawi) Ltd.	40.0	Press, Massey-Ferguson (Can.)	0.9
B&C Metal Products Ltd.	25.0	Brown & Clapperton (U.K.)	1.8
ENCOR Products Ltd.	23.3	Tregor (Zimbabwe)	1.6
Malawi Iron & Steel Corp.	40.0	INDEBANK, Apex (S. Africa)	In Liquidation
Can Makers (MDC) Ltd.	100.0		In Liquidation
Plastic Products Ltd.	100.0		1.4
David Whitehead Ltd.	29.0	Press, Lonrho (U.K.) Sold	23.0
Mergola Knitwear	51.0	to Local Interests--	
Malawi Hotels Ltd.	47.4	CDC, Carlsberg	4.4
Malawi Restaurants Ltd.	100.0		N.A.
Soche Tours & Travel	25.0 (approx.)	United Touring Co. Ltd.	N.A.
Bookers (Malawi) Ltd.	20.1	Booker McConnell Ltd. (U.K.)	13.4
United Touring Co. Ltd.	26.0	Unknown	N.A.
Import Export Co.	51.0	Press	64.5

service organization, a new investment-oriented corporation was devised. Over the last 10 years, agricultural purchases rose from MK14 million to MK30 million, while fixed assets rose from MK4 million to MK40 million. A brief look at some of the more interesting activities of ADMARC will provide a frame of reference, as the principal activity of Malawi is agriculture.

From independence, the policy of the Government has been to emphasize the role and growth of agriculture, both for domestic consumption and for export. This was the traditional enterprise of the colony, and it must have been with great resolve that the new Government elected to continue with the old policy, in the face of more glamorous but entirely inappropriate attempts at higher technology. The policy of the Government can be seen at work through ADMARC perhaps more clearly than in any other single organization. And despite some activities that are open to question, the driving force appears to be the creation of wealth first, and only then redistribution, and in most cases only redistribution of the increase in wealth. Many of the original European expatriate estates are still in existence and enjoy the same support as any other farm. It is only in the Asian sector that farmers have been forced to sell, and existing wealth redistributed.

As one of its new functions, ADMARC was vested with a number of estates in 1971. Four of the original six were taken over from Government ministers, though under what circumstances is not known. In total, the six estates had almost 16,000 acres in tobacco, maize, and other crops. It was decided that these and additional new estates would be farmed commercially to serve as examples to Malawi farmers, both large and small. The range of inputs was increased to include fertilizer and insecticides, and ADMARC markets and storage depots were established throughout the country. From the beginning, ADMARC was quite profitable, and provided a source of investment funds which they were quick to use. All profits were retained within ADMARC until 1979, at which point the Government required that 40 percent be turned over to the Treasury. And unlike MDC, which pays ordinary corporate taxes on its profits, ADMARC is exempt from tax, though why this disparity should exist is unclear. The key to ADMARC's activities lies in this rapid accumulation of profits, as follows:

Year	MK millions
1972	7
1973	9
1974	13
1975	11
1976	28
1977	29
1978	4
1979	NA
1980	(5)
1981	(6)

Until 1978 and the collapse of tobacco prices, ADMARC was accumulating hefty surpluses. Part of this was due to the improving markets for tobacco and, to some extent, cotton and peanuts. Initially, a number of investments were also contributing to the profits. ADMARC was in the right place at the right time, and increased its own farm holdings, while also participating in a wide range of investments. A list of current investments exclusive of their 19 estates appears in Table A-3, which indicates their diversity of holdings. In this instance, the policy of assisting in the development of agricultural production seems to have been ignored in the move towards more industrial and commercial activities, although a large number of these activities were agro-industrial. The base of ADMARC remained in agriculture, however, and the 13 new estates were in large part experimental and developmental.

An interesting example of mixed success occurred in the activities of the Ekwendeni Seed Farm, several hours north of Lilongwe. On this 1,880-acre estate, a maize seed program was started with experimentation on new hybrids and controlled growing. The National Seed Company had been established to produce and process certified agricultural and horticultural seed for sale in Malawi and for export. ADMARC owns 72.5 percent, and CDC has 29.5 percent, in addition to a £800,000 loan. Further, CDC management of the company is partly funded by the Overseas Development Administration, the United Kingdom equivalent of USAID. The National Seed Company is operating profitably, making around U.S.$125,000 a year, and has expanded to take in seed grown by contract farmers in the Lilongwe area. These farmers take the raw seed to the plant, and are paid by the pound according to grade and type, after which the National Seed Company cleans, grades, treats, packages, and stores. It then sells these seeds to ADMARC which in turn distributes and sells to the nation's farmers. However, ADMARC's Ekwendeni Seed Farm, designed to assure the nation of sufficient seed, sells its seeds to National Seed Company already cleaned, graded, treated, packaged, and delivered, but at the same price as the contract farmers in Lilongwe. ADMARC was losing money on this arrangement, and requested National Seed Company (in which they own a controlling interest, you will recall) to pay more for their finished seed. National Seed Company refused, saying it would not be fair to the contract farmers. This created one of those impass situations in which a convoluted financial structure produces from time to time. Especially interesting is that ADMARC has to turn around and buy the seed back from National Seed Company, and cannot by-pass them because it would be outside established channels. The resolution is a happy one, however, because there are plenty of farmers in the Lilongwe area who can produce for National Seed. ADMARC has made arrangements to shift Ekwendeni production to another crop, probably tobacco, and this will resolve the situation. However, it took several years to sort out this situation.

Table A-3. ADMARC Investments and Loans

Shares at Cost	% of Issued Shares Held	1981 MK
ADMARC Canning Company Limited	100	40,000
Advanx (Blantyre) Limited	50	103,880
Auction Holdings Limited	52	853,455
Bata Shoe Company (Malawi) Limited	49	350,350
Buwa Tobacco Estates Limited	100	240
Cattle Feedlot Company Limited	25	70,000
Central Grading and Packing Company Limited	55	50,000
Chasato Estates Limited	40	200
Commercial Bank of Malawi Limited	10	230,000
Cory Mann George (Malawi) Limited	50	280,000
Cotton Ginners Limited		
Ordinary	49	98,000
Preferred	49	153,934
Dwangwa Sugar Corporation Limited	38	10,227,998
Enterprise Container Limited	20	62,222
Finance Corporation of Malawi Limited	100	200,000
Grain and Milling Company Limited	50	240,000
Hotels and Tourism Limited	NA	2
Investment and Development Bank of Malawi Limited	25	895,000
Kasikidzi Estates Limited	100	200
Lever Brothers (Malawi) Limited	20	575,000
Livilidzi Estate Limited	100	100
Malawi Railway Holding Company		200
Malawi Tea Factory Company Limited	40	4,000
Manica Freight Services (Malawi) Limited	50	500,000
Mangani Estates Limited	100	72,364
Mpira Estates Limited	100	3,572
National Bank of Malawi	33	2,013,796
National Insurance Company Limited	20	40,000
National Oil Industries Limited		
Ordinary	50	223,750
Preferred	100	540,000
National Seed Company of Malawi Limited	72.5	580,000
Optichem (Malawi) Limited	20	140,000

Table A-3. ADMARC Investments and Loans (cont.)

Shares at Cost	% of Issued Shares Held	1981 MK
P.E.W. Limited	87	464,600
Portland Cement Company (1974) Limited	50	2,750,000
Roadmarc Limited	51	30,600
Sugar Corporation of Malawi Limited	20	1,800,000
The Oil Company of Malawi Limited	10	20,000
Tobacco Estates Limited	50	145,000
United Transport (Malawi) Limited	35	1,391,960
Total Shares Investments		25,170,423
Debentures and Other Secured Loans at Cost		
ADMARC Canning Company Limited		146,000
Buwa Tobacco Estates Limited		50,000
Import and Export Company of Malawi Limited		183,265
Kasikidzi Estates Limited		230,000
Malawi Development Corporation		200,000
Malawi Tea Factory Company Limited		718,750
Press (Holdings) Limited		245,733
Total Debentures and Other Secured Loans		1,773,748
Income Notes at Cost		
Investment and Development Bank of Malawi Limited		2,250,000
Unsecured Loans		
ADMARC Canning Company Limited		710,225
Advanx (Blantyre) Limited		115,000
Blantyre Printing and Publishing Company Limited		1,492,839
Buwa Tobacco Estates Limited		265,298
Central Tobacco Properties Limited		500,000
Chasato Estates Limited		175,022
Chitale Estates Limited		96,434
Cory Mann George (Malawi) Limited		-
Kasikidzi Estates Limited		394,043
Lividze Estates Limited		390,285
Malawi Government Posts and Telecommunications		4,500
Malawi Housing Corporation		839,435
Mangani Estate Limited		352,143
Mayeso Company Limited		36,323
Mingoli Estate		77,576

Table A-3. ADMARC Investments and Loans (cont.)

Shares at Cost	% of Issued Shares Held	1981 MK
Mphaso Company Limited		182,491
Mpira Estates Limited		178,372
Nakawale Estate Limited		151,611
National Seed Company Limited		360,000
Press Holdings Limited		29,287,867
Roadmarc Limited		335,000
Tikondane Estate Limited		442,669
Viphya Pulp and Paper Corporation		31,596
Dwangwa Sugar Corporation--Subordinated loan		1,032,000
Gum and Chemical Company		425
Malawi Housing Corporation		-
Total Unsecured Loans		37,451,154

In addition to its investments and commercial farming programs, ADMARC performs a far more important role as supplier to and purchaser from the smallholder agricultural community, the backbone of the Malawi economy. ADMARC not only provides the services necessary to the support of this sector, but is highly influential in setting prices both for inputs and for purchases of the main crops.

C. Press Holdings Ltd.

Since its inception, the Press group of companies has grown in an atmosphere of mystery. Wholly owned by President Banda and extremely sensitive to his personal interests, Press has operated in a most unusual manner. Because there are no published accounts, the pieces of the puzzle must be sought through the annual reports of coventurers, the occasional international agency that mentions some aspect of the institution, interviews with extremely cautious subjects, the telephone directory, and hearsay. The size of the Press group is unknown, but a list of known interests in other manufacturing companies appears in Table A-4.

At present, Press is going through a severe shakeup due to an overwhelming debt burden, at least at today's interest rates. One estimate of debt is in the U.S.$120-130 million

Table A-4. Press (Holdings) Limited--List of Subsidiary and Investment Companies

Serial Number	Name of Company	Date of Acquisition	Number of Shares	% Holding	Cost of Shares
1	General Farming Company Ltd.	8/11/69		100	MK3,000,000
2	Peoples Trading Centre Ltd.	5/02/73		100	MK546,020
3	Press (Farming) Ltd.	6/23/69		100	MK1,500,000
4	Press Furniture & Joinery Ltd.	10/14.75		100	MK1,000,000
5	Press (Properties) Ltd.	1/13/69		100	MK2,600,000
6	Hardware and General Dealers Ltd.	1/09/71		100	MK2,500,000
7	Press (Produce) Ltd.	8/10/71		100	MK250,000
8	Press (Ranching) Ltd.	5/18/76		100	MK400,000
9	Press General Dealers Ltd.	1/16/76		100	MK2,500,000
10	Press (Fashions) Ltd.				
11	Press (Bakeries) Ltd.	12/02/76		100	MK300,000
1	Agrimal (Malawi) Ltd.			40	MK76,625
2	Alumina Corporation of Malawi Ltd.			5	MK1,000
3	Brick and Tile Company Ltd.			33.33	MK100,000
4	Carlsberg Malawi Brewery Ltd.			24	MK367,276
5	Chibuku Products			30	MK60,000
6	Commercial Bank of Malawi			40	MK929,200
7	Cattle Feedlot Company Ltd.			35	MK50,000
8	David Whitehead & Sons			20	MK463,100
9	Dwangwa Sugar Corporation Ltd.			20	MK3,800,000
10	Enterprise Containers Ltd.			33.3	MK66,666
11	Grain and Milling Company Ltd.			50	MK240,000
12	Hogg Robinson (Malawi) Ltd.			25	MK23,608
13	Import & Export Company of Malawi Ltd.			49	MK460,216
	Ordinary Shares				
	5 1/2 Cum. Prep. Shares			49	MK240,196
14	Limbe Leaf Tobacco Ltd.			40	MK401,600
15	Malawi Distilleries Ltd.			20	MK50,000
	National Bank of Malawi		2,414,694		MK2,920,004
	National Insurance Company Ltd.		45,000		MK90,000
	National Oil Industries Ltd.		36,750		MK73,700
	Press Steel & Wire Ltd.		37,500		MK40,524
	Pinto Coelho (Malawi) Ltd.		5,000		MK5,000
	Sugar Corporation of Malawi Ltd.		1,087,500		MK2,610,000
	W & C French (Malawi) Ltd.		61,250		MK308,500

range, with as much as U.S.$90 million in arrears. Because total commercial banking loans are only in the U.S.$180-200 million range, this gives some scale to the magnitude of the debt, which, however, is spread among statutory bodies, foreign creditors, and other lending groups as well as the commercial banks. As an example, ADMARC lists an unsecured loan to Press Holdings Ltd. at U.S.$29 million as of the end of last year.

Press, perhaps more than any other investment institution which is considered in this report, is operated as a private sector business venture. From the beginning, Press was making profits that were necessary to President Banda's political activities. Profits from Press activities are divided into two parts--a portion is reinvested, and the rest is used by President Banda in his own development projects. It is not known just what activities have been financed through Press, but the Kamuzu Academy of Kasungu appears to have been built almost entirely through Press surpluses. After completion, it was turned over to the Ministry of Education together with a trust fund to pay for recurrent costs, a total expenditure of about U.S.$20 million. Other high visibility projects, including the Capital City, Lilongwe, and the new Kamuzu International Airport, are reputed to have been assisted with Press money. But the investments of Press, on which profits depended, while useful in a development sense, seem to have been guided by a more or less unvarnished profit motive.

The criteria for investment appear to be the same as those for most risk capital ventures, that is, the prospect of a significant return on a minimal investment, with leveraging as high as possible. This worked remarkably well until the late 1970s, at which time a general decline in the Malawi economy, coupled with increasing interest rates, forced Press into an awkward financial position. At the same time, the owner, President Banda, had a variety of projects in the mill dependent on profits from Press.

It was at this point that policy, or perhaps power, overrode sound business principles, and Press began to borrow not to revitalize its operations but to pass on these funds in the form of dividends to the President. This made a bad situation worse, and it is not clear how long this state of affairs might have persisted had not the nation required additional international lending, and the fell hand of the IMF was felt in the highest quarters. Press is perhaps the worst instance in Malawi of political and personal ambitions obscuring sound business principles. On the other hand, it might be argued that great ventures were never successfully prosecuted by faint hearts and had interest rates remained constant and some commodity prices remained firm, the gamble could have paid off handsomely. It is in some ways remarkably similar to Harding Lawrence's rapid expansion of Braniff International, though the consequences are not likely to be as terminal.

D. Commonwealth Development Corporation (CDC)

CDC has been an important element in the growth of the Malawi economy since independence and wields an influence well beyond the actual amount of its investments and loans. As an indication, the CDC representative in Malawi is a director on the board of 23 corporations, both public and private, and has management responsibility for a number of enterprises. CDC works closely with the British Overseas Development Administration (ODA), and frequently ODA will provide management and technical assistance to projects in which CDC has an interest, either loan or equity. In this way, the discipline of a commercial venture is preserved while development assistance is channeled into particularly effective and practical operations.

One of the earliest ventures of any size was the David Whitehead textile factory, established in Blantyre in 1967. CDC was one of the original joint venturers along with MDC and David Whitehead. In addition, CDC provided loan funds for the initial period. For some reason which is not clear, Press Holdings Ltd. replaced CDC as equity participant in 1968.

However, the relationship between CDC and David Whitehead remained cordial, and CDC lent additional funds for the 1974 expansion, and has just lent another U.S.$5.5 million for further expansion.

CDC activity was limited to a few efforts in Malawi during the sixties, while the bulk of CDC's attention in this part of Africa was focused on Zambia. According to CDC's Malawi representative, a change in outlook occurred around 1970, as the Zambian economy began to deteriorate. It was noticed that Malawi, though extremely poor, made good use of its resources and was determined to get ahead through hard work. It was also noticed that there was a greater emphasis on the creation of wealth, and that there was remarkably little corruption or Government obstruction.

At about this time, one of the CDC executives, Mr. Gerald Raynor, put together the notion of an in-country, multinational development bank. This idea was carefully developed and presented, and found favor with both Malawians and several foreign donors. In 1972, the Investment and Development Bank (INDEBANK) was established, with Mr. Raynor as the General Manager. The original shareholders were CDC, ADMARC, the Germans, and the Dutch. Later, IFC became a shareholder. The purpose of INDEBANK was to mobilize capital and act as both lender and investor in new ventures, and to act as a counterbalance to MDC, whose role was similar but without the perspective of international shareholders. CDC has proved to be a prudent and innovative organization, consistently in the black, and serving as a catalyst for numerous sound ventures.

CDC continued its expansion into Malawi, with a range of loans and investments closely paralleling the Government's emphasis on agriculture. Investments (equity) included 27 percent of National Seed Company, 20 percent of Standard Tobacco Packers, 32 percent of Blantyre Netting Co., 26 percent of Malawi Hotels, and 30 percent of Capital Developments Ltd. Loans were made to Blantyre Water Board, Dwangwa Sugar Corporation, Electricity Supply Commission, Kasungu Flue-Cured Tobacco Authority, Malawi Housing Authority, Malawi Housing Corporation, Mandala Ltd. (rubber plantation), Smallholder Coffee Authority, Smallholder Sugar Authority, Smallholder Tea Authority, and David Whitehead (textiles). In Malawi, CDC currently has loans outstanding in the region of U.S.$130 million equivalent, and equity investments at cost of around U.S.$3 million.

CDC's role in Blantyre Netting Company is illustrative of the complex and quite sophisticated financing arrangements prevailing in Malawi. David Whitehead wished to get into the business of making polypropylene woven sacks for agricultural purposes. David Whitehead therefore arranged to purchase Blantyre Netting Co. Ltd. which was then making fishing and sporting nets. A three-way partnership was formed, with CDC investing MK500,000 initially as a loan, convertible to common stock (33.2 percent) several years after startup. In addition, CDC made the new corporation a loan of U.S.$900,000. David Whitehead put up 51.7 percent of the initial capital for that portion of the equity, and INDEBANK (of which CDC owns 22.2 percent) made up the remaining 16.1 percent. In addition, INDEBANK provided medium-term loans in the range of U.S.$900,000. The company is doing well, despite lack of foreign exchange for raw materials, and reported a U.S.$200,000 profit in 1981.

E. Investment and Development Bank of Malawi Ltd. (INDEBANK)

INDEBANK occupies a unique position in Malawi; most developing countries have a development bank or corporation, and many have two or more, but few have a multinational investment institution located in their country whose exclusive purpose is to promote economic growth within that one nation. INDEBANK is capitalized at just under U.S.$5 million, with a further U.S.$9 million in income notes which are unsecured instruments subscribed by the shareholders and currently bearing interest around 8 percent per annum. It is very long-term interest-only financing, but must be paid in full not later than 2020. INDEBANK's portfolio as of the end of 1980 included equity investments in 17 corporations and secured loans to 34 corporations (some of which are included in the 17 equity participants).

Even by Malawi standards, this is not a large force in the economy. But like CDC, INDEBANK has a disproportionate influence. It was one of the few investment institutions that resisted the temptation to speculate heavily in tobacco in the mid-1970s, and as a result is one of the healthier institutions in the country. The present head of INDEBANK, originally seconded from CDC, has just been appointed head of the troubled ADMARC, in an effort to sort out some of their problems. The original general manager of INDEBANK, Mr. Raynor, was called back six months ago to be acting general manager of Press Holdings Ltd., until a new manager could be found. INDEBANK has a central core of expatriates provided by the English, German, and Dutch shareholders who are experts in their fields and command the respect of the Malawi financial community. There is no hesitancy in using good managers, either local or expatriate, and when an INDEBANK company gets into trouble, remedies are sought reasonably quickly and without prejudice.

This state of relative independence did not come easily. When INDEBANK opened its doors in 1973, the contractual agreement between the Government, INDEBANK, and its shareholders stipulated that the maximum single loan would be MK400,000. On that day, the general manager of Press Holdings Ltd. appeared with a loan application for MK4.5 million, an amount even greater than total capitalization. When the maximum loan limit was explained, he went to President Banda, who then closed the bank "until this matter is cleared up." Six months and many negotiations later, INDEBANK reopened, with the old limit intact, but with the exception that in cases of particular national importance, up to MK1 million might be committed. Press then reapplied, and the first loan on the books is reported to have been MK1 million to Press. In one or two subsequent instances, INDEBANK was pressured into assisting Press against its judgment, but managed to resist and has preserved its reputation for sound business decisions in most instances.

F. Commercial Banks

The larger bank, National Bank of Malawi, was originally two banks, Barclays and Standard, both of the United Kingdom. Management has been provided by Barclays over the years, and from its inception in 1971 until 1975, it appears that it was run on sound commercial banking principles. However, around 1975, the tobacco market suddenly looked quite tempting, especially with Rhodesia ostracized by virtue of UDI and thereby cut off from its tobacco markets. A policy of ridiculously easy credit was established in fact but not in writing, and it was understood that various Government officials of ministerial and other high rank were to be allowed substantial overdrafts to finance new tobacco estates. Leases were obtained from village chiefs, and those, together with a shell corporation, were presented at the banks.

Both National and Commercial were involved, and it is significant that Commercial was formed by taking over the Portuguese bank at this time (1975). Most of the documentation for the history of this period is not readily available, but an example frequently quoted is that of the minister who had 2,000 acres of bush and a newly arrived Rhodesian farmer, who may or may not have been qualified, as his tobacco estate manager; nevertheless, one or the other bank promptly lent the minister the equivalent of U.S.$250,000 on virtually no security. Whether or not this is factual, it represents an attitude and a movement of the country's monetary resources into this sector in a significant way.

When the bottom fell out of flue-cured tobacco prices in 1980, those estates which were barely making it or were caught in an expansion phase went to the wall. The National Bank of Malawi reported in March 1981 that of their total loan portfolio of U.S.$102 million equivalent, $76 million was in loans to tobacco estates and, of that, $62 million was classified as "carry-over," which means that these were loans over a year old and would be considered delinquent by any bank auditor.[2] Figures on delinquent accounts were not available from the Commercial Bank of Malawi, but its loans to the tobacco sector in 1980 were approximately 25 percent of the National Bank of Malawi's, and one might assume a similar rate of delinquency, which would give them a sum of U.S.$15 million in arrears. The total of doubtful debt, $77 million, is over 40 percent of all commercial bank lending.

This is a classic case of political meddling in commercial matters and has resulted, together with the experience of Press Holdings Ltd., in a severe liquidity constriction that has dried up the traditional financing arrangements on which the country depends.

G. National Insurance Company Ltd. (NICO)

NICO was started in 1971 when New India Insurance Company was nationalized by the Indian Government. NICO's operation in Malawi was taken over by Press (45 percent), MDC (20 percent), and ADMARC (20 percent), with 15 percent of the shares retained by New India. In 1979, Press acquired New India's shares and entered into negotiations with Guardian Royal Exchange of

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[2] Estate Credit Study, Hunting Technical Services Ltd., pp. 68-69.

London (GRE). Guardian Royal Exchange's Malawi business was merged with NICO in 1980, and Guardian Royal Exchange now owns 15 percent, while the remaining NICO partners retain their original proportion of shares. GRE provides management and actuarial services for a fee of MK150,000 per year, plus costs. Current liquid assets are in Government securities (approximately U.S.$3.5 million) and bank balances (approximately U.S.$10 million).

A curious incident occurred in 1979, when the economy was beginning to suffer a decline and the liquidity of the commercial banking sector was extremely tight. NICO had agreed to lend significant sums of money to Press and MDC, totaling several million dollars equivalent. It was and is customary to advise the Governor of the Reserve Bank in advance when shifting any large sums, and this was done. A personal communication from the Governor to the General Manager was received, stating that this transfer could not be made and that the funds should remain in the commercial banks. There was no authority for this, but it was understood to have come from President Banda. The curious feature here is that Press had essential control of NICO, Press needed the funds, and Press was exclusively controlled by President Banda. Yet he apparently determined that it was more desirable for these monies to remain in the commercial banks, which were also partly owned by Press.

H. Other Financial Institutions

1. Post Office Savings Bank

Deposits are collected throughout the nation at post offices, a system long a feature of the United Kingdom. Interest is paid, currently at 8.5 percent, and this is free of all taxes. But the savings are used exclusively by the Government, and there is no mechanism for channeling these funds into the private sector. Deposits have increased from U.S.$7 million equivalent in 1972 to U.S.$24 million in 1982.

2. New Building Society

Both savings and fixed investment deposits are collected at the New Building Society, which is a Government-operated institution. Funds from this institution are used to finance construction in the public sector, but the magnitude of deposits is still quite small, having grown from U.S.$4 million equivalent in 1972 to only U.S.$12 million currently.

3. Malawi Union of Savings and Credit Cooperatives, Ltd. (MUSCCO)

MUSCCO was founded in 1980, as an umbrella organization to assist in developing a number of savings and credit cooperatives throughout the country. These cooperatives currently have assets of approximately U.S.$500,000 equivalent scattered among 24 separate organizations. Lending is strictly to members of each cooperative, and at present represents a very small portion of the nation's capital. However, given some encouragement, this organization could develop into an institution with some strength.

APPENDIX B

INFORMATION FOR PRIVATE SECTOR DECISIONMAKING

I. INTRODUCTION

Information sharing in Malawi is very informal. In a country this small, it is fairly easy to identify potential markets, competition, and sources of supply. Low wages and surplus labor skew choices of technology towards those that are labor intensive, requiring more in the way of management skill than technical information.

The Government's policy on information is made clear in their plan for the Department of Information and Tourism:

> 1. The Department, as an instrument of the Government, shall keep public opinion well informed, and in pursuing this end will build up national pride, stimulate awareness of independence, and create enthusiasm for national development and
> ar support of Government programmes.
>
> epartment shall create a favorable image of the country and the Nation of Malawi at all levels, both internally and internationally, and in pursuing this end, will interpret the policy, objectives, and achievements of the Government as well as the needs, cultural values, and potentialities of the people of Malawi.[1]

The Government's view is that it is not enough that the press should inform, instruct, and entertain. It must go further in its developmental role.

One specific policy concerning information dissemination is that it be supportive of the Government policy to concentrate national development on the peasant farmer. If peasants are the focus of development, the Government must be able to communicate goals and relevant information. In pursuing this strategy, several steps were taken. Malawi Broadcasting Corporation was licensed as a statutory body, and in 1966, the tax on home radios was abolished. The latter made radio, with its potential for the indirect geographical distribution of information and the capability of reaching people who do not read, rather more accessible by lowering the cost. The effectiveness of the rural information policy augments the effectiveness of the policy to promote smallholder agriculture because it serves to communicate the information necessary to farmers.

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[1] As quoted in Crispin Mkandawire and Rod Nesbitt, "Communication as Development: The Malawi Situation," The Malawi Review, 1, 1, 1982, pp. 6-7.

II. INSTITUTIONS

There are an impressive number of information institutions in Malawi--some specifically designed to service business. Others have broader purposes but do provide some useful information.

A. Business Institutions

A number of institutions have been created in Malawi solely to assist the business community. The one with the oldest roots is the Malawi Chamber of Commerce which has a 90-year history. Before independence, there were three different business organizations--one each for the African, the European, and the Asian communities. At independence, these organizations were merged into one Chamber of Commerce with a goal to promote trade and provide a channel of communication between the Government and the business community.

To carry out this function, the Chamber publishes a newsletter which prints new regulations and tariffs, publicizes and reports on conferences, notes additions to the library, and includes long sections on trade inquiries offered and wanted. If the Government wants to immediately notify the business community of a new law or regulation, the Chamber will print a special handout and mail it to members.

The Chamber also represents the problems of the business community to the Government. Through discussion, it presents the private sector's views and attempts to influence legislation. The Government is represented on each of the Chamber's working committees which keeps up an active dialogue between them.

Specific examples of recent events provide an indication of the Chamber's activities. It recently had a meeting with a speaker from the Reserve Bank to discuss foreign exchange restrictions. The Chamber provided educational programs on shipping goods in containerized units as a means to mitigate some of the serious transportation constraints Malawi faces as a landlocked country. The Chamber is getting involved in Trader's Trust (a program to train retail merchants in basic business skills) through its Rural Trade, Education, and Training Subcommittee. It provides advisory services (although the rural businessman must come to them) and occasionally conduct seminars in the rural areas. More is planned for the future.

The most promising activities are those undertaken by the Projects Committee which is responsible for identifying opportunities and linking them to entrepreneurs. The Chamber pursues this through several means. It learns of projects available on joint ventureship through EEC's Center for Industrial Development. Serving as matchmaker, the Chamber tries to bring the investors together with those who want to undertake the activities.

Organizations such as Malawi Development Corporation and INDEBANK conduct feasibility studies on a regular basis. Recently, the Projects Committee acquired access to a number of these studies and is currently distributing a list of opportunities to its members.

Having assisted in the survey of industries conducted by the Industrial Development Program, the Chamber now has a better picture of what industries are already well established and what industries might provide further opportunities. This allows it to provide better advice on potential opportunities.

As a means of further assessing some of these opportunities, industry assessments have been sent to the Southern African Development Coordinating Committee (SADCC). SADCC then compares them to all industries in the region to determine market size and whether there are economies of scale. The idea of producing fertilizer by water electrolysis was recently approved by SADCC, and Press Holdings is investigating the feasibility of fertilizer production for the whole of southern Africa. Projects approved by SADCC are large scale and presumably of interest to a fairly small circle of Malawian companies.

Although the Chamber provides useful services, it is limited by its small staff. Relations with the Government are considered one sided. The Chamber's "self-help" approach is fine for those businessmen in Blantyre with the time and knowledge to take advantage of the services provided, but even some of its members are not terribly impressed with the services. The Projects Committee shows considerable potential but very little has actually been accomplished after several years.

In spite of the merger of the three business organizations at independence, the Government's continued promotion of the Malawian private sector has led to the resurgence of an organization to promote African enterprises, the African Businessmen's Association (ABA). It is suggested by a number of outsiders that in the ABA, information generation and transfer takes the form of political lobbying. The organization is certainly very active (and reportedly successful) in supporting its members in finding funds and in training. Any contact from the stray AID researcher is met by a large crowd of people assertively declaring that their major constraint is a lack of credit.

The Malawi Export Promotion Council (MEPC), established in 1971 as a statutory body, was created to promote exports of Malawi's products. The Council has received assistance through a program of the UN International Trade Commission. The funds ran out last December, and the Council's activities seem largely to have been suspended, although a new project agreement is expected to be signed soon. Like the Chamber of Commerce, MEPC publishes a newsletter, "Malawian Export Promotion News," which is quite similar to the Chamber's newsletter but slanted toward export information. They have a library (largely supported by UN/ITC) and present seminars. Recent programs, presented by experts in the field, have been on customs documentation and import requirements.

In 1977, the Council developed the Strategic Export Development Plan in an effort to gather information from exporters. The strategy placed the burden of supplying information to the Council on the exporters themselves. As an indication of the Council's lack of credibility and standing in the business community, the plan did not get off the ground.

The Council is also responsible for organizing and managing trade fairs, with regional fairs being the most useful. The Council indicated that a very large number and variety of firms send participants or samples. However, several of the firms interviewed said that they had stopped sending participants and sent samples only because the fairs were a waste of time.

The EEC has provided funds for MEPC to do market surveys in Zimbabwe, Zambia, and Tanzania, with the goal of improving export performance by providing exporters with detailed information about potential markets. As a direct result of the Test Marketing Survey of Zimbabwe done in 1981, one Malawian company received initial orders with a value of MK100,000.

An institution responsible for the generation and transfer of a different kind of information is the Malawi Bureau of Standards. The purpose of the Bureau is to maintain minimum quality of products and services. The standards prepared by the Bureau are currently for voluntary compliance, although new laws have been proposed to establish a compulsory system for some products. For a fee, the Bureau offers quality control services to industries until the industry is large enough to buy its own testing equipment. Then it continues testing under Bureau supervision with scheduled and unscheduled visits and tests of the product purchased in the marketplace. When the quality standards are met, the industry receives certification.

One example of business coming to the Bureau for services is in the textile trade. When textile importers receive a shipment which does not agree with the samples, the Bureau's technician trained in textile technology provides evidence for the insurance claim. This is done on a fee-for-service basis.

Through charging these fees, the Bureau generates about a third of its operating expenses. Although the Government provides two-thirds of its funds, it wants industries to view it as a source of assistance and not a Government watchdog. Indeed, if and when the compulsory standards are legalized, another agency will be set up to provide enforcement of standards developed by the Bureau.

Technicians at the Bureau must complete the laboratory technicians program at the Polytechnic. For specialized training, the technicians attend courses outside the country. So many training fellowships are available that they must be carefully managed to avoid disrupting the work.

Like so many of the other business institutions, they provide valuable services to the large, progressive firms who have the sophistication to seek them out and take advantage of them. But unless standardization and testing are made compulsory, the Bureau's activities will barely penetrate the surface of the private sector.

B. Other Institutions

Of the sources of general information, the radio station, Malawi Broadcasting Corporation (MBC), has already been mentioned. Its capacity to reach such a wide audience makes it particularly important. However, it provides very little business information. Crop prices are announced (tobacco is most consistently followed) and political goals are communicated during the news. MBC presented educational programming on the change to a decimal system of currency, weights, and measures. Another educational campaign was launched when the kwacha was devalued (readjusted). When traders increased their prices by 15 percent, MBC communicated the Government's policy that this was "undesirable and prices should be returned to normal."

Unfortunately, not only do radios provide fairly little business information, they were available to only 6 percent of the total population in 1971, and 14.6 percent in 1977 (see Table B-1). There is an increasing number of radios, although they are concentrated in the urban areas where 46.2 percent of the people own working radios while only 11.7 percent of the rural population own them.

USAID had a project to assist in improving and expanding the Government's radio broadcasting service (Mass Educational Media 612-11-960-149). AID provided advisory services

Table B-1. Radio Ownership by Urban and Rural Population

Category	1971 Number	1971 Percentage	1977 Number	1977 Percentage
People Who Own Operating Radios	61,408	6	800,123	14.6
Urban Population Owning Radios	25,046	6	451,022	46.2
Rural Population Owning Radios	37,360	4	591,855	11.7

equipment and training to MBC. Although little business information is broadcast, it is a growing and expanding station with a variety of entertainment (40 percent) and educational programming (60 percent).

Malawi's two major English-speaking newspapers also provide minimal business-related news to a primarily urban readership. In a country with an urban population of 10 percent and an overall literacy rate of about 26 percent, their information is not very accessible to the majority of Malawians.

The National Statistics Office publishes an extensive array of statistics but there is a dearth of business and manufacturing data. The statistics most useful to private enterprise are those on trade. The director of the National Statistics Office said they get many requests for these data, which are especially useful to the largest and most progressive firms.

The goal of AID's Economic and Statistical Service Development project (612-11-790-139) was to help establish the National Statistics Office. A team from Indiana University and the U.S. Bureau of the Census carried out a study of statistical requirements. The Bureau of the Census provided advisors, and the project also included participant training. (The choice of which statistics to collect seems to have been public-sector oriented.)

The Ministry of Trade and Industry (MTI) also offers the private sector some information on business. It published two publications: "Industrial Promotion in Malawi: A Guide for

Prospective Investors," MTI, October 1973, and "Memorandum for the Information of Importers and Exporters," March 1, 1982. Although the former seems more geared to outside investors, the latter is clearly for Malawian businessmen. It notes that it is an information notice only and indicates where further data can be obtained. It mentions both the Malawi Export Promotion Council and the Chamber of Commerce as sources of more information.

The Government's policy of localization is followed in the Ministry of Trade licensing division by giving preference to Malawian businessmen and waiving their license fee. In addition, the industrial officers at MTI mentioned that they informally provide businessmen with advice, particularly in the formulation of their proposals.

The National Bank of Malawi published a pamphlet called "Business Information on Malawi" in 1981. Although it is primarily geared towards foreign investors, there is some information which would be of interest to Malawian businessmen as well.

III. DONOR INTERVENTIONS

The formal information system serves the largest Malawian businesses and expatriates, leaving an information gap for the smaller, less sophisticated businessmen. Some donor programs have been designed to bridge this gap. Traders Trust, assisted for the past two years by USAID, and the SEDOM program, which is just coming on-stream with assistance from ILO, are discussed elsewhere in this report. Although they have more purposes than simply the provision of information, that role is key for both programs.

In a sense, virtually all technical assistance is the sharing of information, but most of it is oriented towards technical advisors and training. Narrowing information to look at surveys, feasibility studies, and conferences reduces it to its purest (or at least cheapest and simplest) form. USAID has been involved in several of these activities.

In 1963, USAID funded a Rural Industry Survey by the Stanford Research Institute. They recommended that a development corporation be established in Malawi, and MDC was established two years later.

A University of Southern California advisor to the USAID's Polytechnic project surveyed Malawi's vocational and technical manpower requirements in 1963. As can be seen from the Management and Skills Training section of this report, training has been a high priority of the Malawi Government. This survey seems to have been an early step in the monitoring and review of manpower requirements needed to plan and coordinate training activities.

In 1961, USAID funded a study of silviculture which must have been one of the earliest in a long series of studies assessing the potential for timber production on the Viphya Plateau. Then in 1967 USAID funded a "Preliminary Study for a Pulpwood and Paper Mill in the Republic of Malawi" under a project called "Investment Promotion--Viphya Pulpwood Survey" (612-11-930-159).

In 1975, UNDP funded a project called "Technicians for Woodpulp Preinvestment Studies" (MLW/75/001). Although the Viphya plantation includes 118,916 acres, the Viphya pulpwood plant is still in the planning stages. The Department of Forestry recently engaged a European consulting firm to conduct another study of the Viphya. This study recommends a more integrated project than had earlier studies, including such things as fertilizer, plywood, and ethanol. Some hints of funding difficulties added to the new integrated approach imply that previous studies may not have been overwhelmingly positive on the investment potential at Viphya.

Through UNIDO, the UN system has been involved in such activities as brickmaking and glassmaking. Their pattern is to conduct a small study to assess the potential of an industry for small enterprises. If the industry looks promising, they provide an advisor. For example, a brickmaking survey resulted in the assignment of an advisor to give assistance to small brickmakers, and the training of several officers overseas who will return and establish an extension aid program. UNIDO is now working on a feasibility study of the glass industry.

The UNDP advisor to the Small Enterprises Division at the Ministry of Trade and Industry has circulated a questionnaire to ascertain what types of activities small enterprises are pursuing, and what types of services are already available. This information will be used in the SEDOM, an integrated program for assisting small enterprises, which is supported by the EEC.

APPENDIX C

INDUSTRY CASE STUDIES

I. CASE NO. 1: THE SUGAR INDUSTRY

A. Introduction

Since becoming independent in 1964, the Government of Malawi has placed great emphasis on the development of agricultural resources as part of its long-term development program. Much of the development in agriculture has been in the form of locally and internationally financed projects, but the Government has always underscored the role which the private sector might play in the exploitation of the agricultural resources. In this respect, the SUCOMA and Dwanga sugar estates represent good examples of the application of large-scale private enterprise to agricultural development.

[illegible]e private enterprise involvement in agricultural

important in Malawi since it involves relatively [illegible]nt expenditure while providing substantial economic benefits to the country. For the sugar industry, these benefits include the employment of a large number of Malawians, savings of foreign currency previously used to pay for imported sugar, gaining of foreign exchange through the export of sugar, and enhancement of regional development in the two areas in which the estates are located.

B. Historical Background

Investigations into the growing of sugarcane in Malawi were initiated in 1949 by Booker Brothers, in collaboration with the then Nyasaland Government, with the establishment of a pilot project known as the Alimenda Sugar Scheme. Trial efforts at Alimenda, located in the Lower Shire Valley, were abandoned by Booker Brothers in 1952, but the Government continued research at the nearby Makhanga Experimental Station. In mid-1963, the London-based firm of Lonrho became interested in sugarcane production in the Lower Shire Valley.

In 1965, the Sugar Corporation of Malawi (SUCOMA), a wholly owned subsidiary of Lonrho, was formed to operate a sugar scheme at Nchalo. SUCOMA was incorporated with an authorized capital of MK6 million. A total of 11,770 acres of public land was obtained from the Malawi Government on a 99-year lease. Approximately 9,000 acres were available for planting, the remainder being taken up for housing, roads, the factory, etc. The factory commenced production in 1966 with 3,500 m tons of sugar. Since that time, production has expanded rapidly.

Initially, sugar production at the Nchalo estate was planned to supply local consumption only. (In 1965, 19,056 short tons of sugar were imported by Malawi.) However, it was soon realized that sugar production could be a lucrative source of foreign exchange earnings. As domestic per capita consumption of sugar steadily increased, and as U.S. and EEC markets became available to Malawi's sugar industry in the early 1970s, the Government decided to investigate the possibilities for the development of a second sugar estate. In 1974, Lonrho conducted a feasibility study at the Dwangwa Delta on Lake Malawi. Favorable findings led to a decision to go ahead with the new project. In 1976, the Dwangwa Sugar Corporation Limited was established. This second sugar estate, which started production in June 1979, cultivates 13,200 acres of sugarcane with an additional 1,630 acres cultivated under a smallholders scheme. Both estates are managed by Lonrho Limited.

The total investment for the Dwangwa sugar estate amounted to MK70 million. The three major investors included Lonrho (33 percent), ADMARC (30 percent), and Press (22 percent). At the same time, ADMARC and Press acquired 20 percent and 29 percent holdings in the SUCOMA estate. These investments were financed by pledging future profits at SUCOMA.

C. Public Policies and Investments

As indicated above, large-scale private enterprise involvement in agriculture development is an important stimulus to the expansion of this sector since it involves relatively little Government expenditure while providing substantial economic benefits to the country. It is useful then to review what activities the Government has undertaken to encourage this type of investment, especially as it applies to the establishment of the SUCOMA and Dwangwa sugar estates. Managers of both estates agreed that the political stability of the country and the favorable attitude of the Government toward private enterprise activities were overriding factors in arriving at the investment decisions. Other incentives, such as public investments in infrastructure and public policies restricting access to the market, were not highlighted in these discussions. Nonetheless, the Government of Malawi has, through its public investments and policies, improved upon the operating climate of the two estates.

The most significant public investments affecting the two estates are associated with upgrading the transportation system. At the SUCOMA site, the Government agreed to upgrade the perimeter road of the estate to Bangula, the nearest railroad depot, as well as the road from the estate via Chikwawa to Blantyre. In addition, the Government agreed to improve the service provided by the Chikwawa Ferry at Dwangwa, and the road from the estate to Salima was upgraded. Other incentives provided by the Government included duty-free importation of all capital goods and raw materials necessary for the establishment and expansion of the estates; the repatriation of profits, wages, dividends, and funds borrowed outside of Malawi for financing the establishment and operations of the estates; the granting of residence and work permits required for staff recruited outside of Malawi (with the understanding that the estates would undertake to employ Malawians to the maximum extent possible); and the assurance by the Government of Malawi of a fully protected market for the sale of the sugar manufactured by the estates.

D. Donor Assistance

Direct donor assistance has played a minor role in the development of the two sugar estates. The one exception is the CDC. CDC provided loan funds to partially finance ADMARC's and Press' purchase of equity shares in the Dwangwa sugar scheme. In addition, CDC was instrumental in the establishment of the Smallholder Sugar Authority at the Dwangwa estate. Initial plans called for the allocation of 1,630 acres for the smallholders, approximately 11 percent of the estate lands. To date, 1,160 acres have been granted to the Smallholder Authority, and 238 farmers have been enrolled in the program. Each farmer is allocated 5 acres, 2 of which are planted in cane, another 2 in food crops, and the remainder for a house and firewood. Each of the smallholders is enrolled in a two-year training program, at the end of which the more successful are allowed to continue in the smallholder scheme. Many of the original participants (30) had been involved in an unsuccessful rice scheme in the area. The remainder were chosen from a list of candidates submitted by the district heads throughout the country. The main criteria for selection included good health, character references, previous farm experience, being 21 to 35 years of age, and being married. Women were not to be selected, but could take over at the death of their husbands. In addition, special efforts were made to ensure that the participants came from all regions of the country. Each farmer is granted an annual license to work his land. Much of the management of the farm is controlled by the Smallholder Authority. Smallholders are told when to plant, irrigate, fertilize, and harvest. This is primarily due to the scheduling needs of the refinery. Each farmer is assessed a MK500 charge to cover the overhead and input costs provided by the Smallholder Authority. In the first few years of operation, net profits to the smallholders amounted to MK1,350, a sizable income for a country with a per capita income of MK250. Recent reverses in the international market will have a substantial adverse impact on these figures, however, and many farmers are likely to be left with large debts, the recovery of which will be difficult. The Smallholder Authority is planning to expand its acreage for the upcoming season in order to reduce overhead costs per farmer.

Other donor-financed programs that have had an indirect impact upon the operation of the two estates include infrastructure investments and skills training programs. AID helped finance the road from the SUCOMA estate to Bangula, and also was a main contributor to the establishment of the Polytechnic Institute, which provides many of the skilled personnel for both estates. The construction of the Kamuzu bridge linking the Lower Shire Valley to Blantyre as well as improvements on the road from Dwangwa to Salima also received donor assistance.

E. Production and Employment

When the SUCOMA sugar refinery first came on-stream in 1966, it processed 3,766 tons or raw sugar (see Table C-1). Total acreage harvested in that year amounted to 1,310 acres which produced 44,579 tons of sugarcane. In terms of efficiency of the refinery, 11.8 tons of cane were required to produce 1 ton of sugar. Total employment in the first year of production included 1,500 field hands during the cutting season (1,000 during the noncutting part of the year) and an additional 500 in the factory and auxiliary jobs. Since 1966, the total production of the fields and the plant as well as the productivity of these two operations has increased steadily. Total employment and the numbers of Malawians in skilled or managerial positions has also risen.

In 1970, SUCOMA's production totals enabled Malawi to become a net exporter of sugar. Total acreage harvested had expanded to 6,124 acres which produced 317,646 tons of cane, resulting in 36,114 tons of sugar. Productivity per acre increased from 34 to 52 tons of cane, and from 2.8 to 5.9 tons of sugar. The efficiency of the factory also considerably improved from the first years of production, reducing the amount of cane needed to produce 1 ton of sugar from 11.8 to 8.7 tons. Total employment during this period increased to 2,600 field workers during the peak season.

In October 1971, Malawi was granted an import quota for the U.S. market of 15,000 tons of sugar per year from 1973. Shortly thereafter, an EEC quota of 20,000 tons annually was granted. In response to the rising demand, SUCOMA invested an additional MK2 million in the refinery which expanded plant capacity from 80 tons of cane per hour to 110 tons of cane per hour. Total acreage planted has also gradually expanded. In 1973, the Government decided to develop a second sugar estate;

Table C-1. Sugar Production Statistics
(acres/short tons)

	Acres Harvested			Sugar Production		
Season	SUCOMA	DSC	Total Acres	SUCOMA	DSC	Total Short Tons
1966/1967	1,311	-	1,311	3,766	-	3,766
1967/1968	4,226	-	4,226	18,000	-	18,000
1968/1969	4,216	-	2,416	21,906	-	21,906
1969/1970	5,550	-	5,550	29,640	-	29,640
1970/1971	6,124	-	6,124	36,115	-	36,115
1971/1972	6,407	-	6,407	35,740	-	35,740
1972/1973	7,494	-	7,494	37,218	-	37,218
1973/1974	11,121	-	11,121	53,971	-	53,971
1974/1975	13,264	-	13,264	54,422	-	54,422
1975/1976	16,625	-	16,625	71,518	-	71,518
1976/1977	21,454	-	21,454	92,849	-	92,849
1977/1978	22,475	-	22,475	100,906	-	100,906
1978/1979	22,236	-	22,236	103,039	-	103,039
1979/1980	22,470	-	22,470	101,276	17,364	101,276
1980/1981	22,214	12,012	34,226	109,495	52,670	162,165
1981/1982	22,194	13,030	35,224	106,079	77,645	183,724

Dwangwa Delta. Production at the second estate, however, did not come on-stream until 1979.

By 1975, production at the SUCOMA estate had reached 71,519 tons of sugar. Total acres harvested amounted to 16,625, with productivity per acre dropping to 4.3 tons. The labor force during the peak season reached 4,800. By 1980, total acreage at the SUCOMA plantation reached 22,214, and sugar production increased to 109,495 tons. Productivity per acre increased to 4.9 tons of sugar. Permanent employees totaled 5,000, and peak season employment reached 6,000.

In the Dwangwa estate's first year of production (1979), 17,364 tons of sugar were produced. Total production increased to 52,620 in 1980 and to 77,645 tons in 1981. Productivity per acre in 1981 equaled SUCOMA's high figure in 1975 of 5.9 tons of sugar. Employment at Dwangwa fluctuated between 4,000 and 4,500. In 1981, total production for both estates equaled 183,724 tons of sugar, and employment in the peak season was approximately 12,000.

F. Impacts

The sugar industry has had a substantial impact upon the national economy of Malawi. The most dramatic aspect of this contribution has been in foreign exchange savings and generation. In the mid-1960s, about MK2 million was being spent annually on sugar imports. By 1970, Malawi became a net exporter of sugar, generating MK16 million in foreign exchange. Throughout the 1970s, the sugar industry's exchange earnings rapidly multiplied both in terms of total foreign exchange and percentage of total exports. In 1971, sugar accounted for less than 1 percent of total export earnings. By 1975, this figure had increased to 10 percent with total foreign exchange earnings for sugar amounting to MK12.3 million. In 1980, sugar became Malawi's number two foreign exchange earner with export values amounting to MK36.29 million, or 15 percent of total foreign exchange earnings.

A second major impact of the sugar industry on the national economy is evident with respect to employment generated. Prior to the establishment of the SUCOMA and Dwangwa estates, the regions in which they are located had negligible off-farm employment opportunities. Since the inception of SUCOMA in 1966, the estates generated significant employment opportunities. In its first year of operation, SUCOMA employed 1,500 workers. Presently both estates together employ 12,000 workers during peak season, making them the largest employers in the country.

In addition, wages paid by the estates because of a variety of bonuses and incentives are almost triple the established wage rate. The unskilled field laborer makes an average of MK1.80 per day. Skilled workers' wages range from MK2 to MK8 per day. Besides the relatively high wage rates offered by the estates, extensive peripheral facilities are provided for workers. Housing on the estate is provided for over 80 percent of the permanent workers. Schools, medical facilities, and recreation facilities are also provided. These facilities are available for both the workers and their families, and thus provide services for approximately 50,000 people.

The estates have had major effects on other sectors of the economy as well. Sugar-using industries, such as confectionary and soft drinks, have no doubt benefited from a stable and inexpensive supply of sugar. In addition, the estates are major users of other industries' products, such as transport and electricity, enabling these industries to increase output and, where possible, to lower unit costs. Another major effect on other sectors of the economy has been the increased purchasing power of estate workers. Many new stores have sprung up in the areas surrounding the estates.

G. Lessons Learned

An examination of the sugar industry supports the Government's conviction that large-scale private enterprise participation in agricultural development can result in substantial gains for the economy as a whole. Since its inception, the sugar industry has generated MK133 million in foreign exchange earnings and has become the largest employer in the country.

-- The most important factors affecting investment decisions include the political stability of the country and the close relationship between the foreign enterprise and top Government leaders. Public policies have played a minor but important role in the investment decisionmaking process.

-- The efforts by the Government both to indigenize the ownership of capital assets and to localize the senior staffs of major enterprises are occurring with no noticeable impact on the operations of the sugar industry. Local ownership is 40 percent at SUCOMA and 60 percent at Dwangwa. The proportion of expatriates in the senior staff is 40 percent at SUCOMA, but is much higher at Dwangwa. Management of the two estates is still in the hands of Lonrho, and the change in equity shares has not affected the decisionmaking processes within the estates.

-- Donor interventions have had only a minor impact upon the growth of the sugar industry in Malawi. However, trade policies in the United States and the EEC provided a major impetus to the expansion of the industry. Similarly, the recent turnaround in the international sugar market, precipitated by EEC policies encouraging increased sugar production, the U.S. imposition of higher import fees, and the recent U.S. establishment of sugar import quotas, will have a serious, deleterious impact both on the sugar industry and the economy as a whole. Forecasts are of a loss in foreign exchange of between U.S.$10 and $15 million. Dwangwa, unlike SUCOMA, is carrying a substantial debt and will be forced to reschedule interest repayments and freeze principal repayments if it is to stay in operation. Moreover, an additional MK20 million will be needed to refinance the operations at Dwangwa over the next two years.

II. CASE NO. 2: THE GARMENT INDUSTRY

A. Introduction

The garment industry in Malawi was established by the British, but over the years has come to be dominated by the Asians. It has only been in the last 10 years that Malawian-owned firms have entered the industry. Malawian tailors have provided considerable competition to the more formal sector, but it is difficult in this case to get much historical perspective.

There are currently 22 firms competing in the industry with an additional 4 firms entering this year. These firms are primarily owned and operated by Asian families but two subsidiaries of Press Holdings have captured a substantial portion of the market (see Table C-2).

A 1977 study on the Malawian textile and garment industries described the latter as "characterized by a high degree of competition among the local manufacturers, and by the uniformity of the products turned out: mainly medium- to low-quality products (for the middle and lower income brackets) manufactured on comparatively cheap imported stock lots."[1] High-value garments have been traditionally supplied largely by imports, although recently some of the bigger manufacturers have been improving their quality to serve this market and in some instances to pursue export opportunities.

According to the 1977 population census, there were 11,495 tailors throughout Malawi. It has been estimated that in 1977, tailors were producing MK5.5 million in gross output supplying over 25 percent of the value of consumption.

Facing this level of competition, the formal sector produced MK8,461,400 of gross output in 1975 of which MK1,110,400 was value added. To reach this point, the highly competitive garment industry has efficiently expanded within the parameters of Government policies, the intervention of quasi-governmental bodies, and its landlocked position. How this has happened becomes clear from an examination of the industry's inputs and markets, and the role of Government policies and other interventions. This discussion will only include the formal sector unless tailors are specifically mentioned. The nature of the informal sector is quite different and will be mentioned at a later point.

Labor, machinery, cloth, and financing, the inputs to garment manufacturing, will be discussed in terms of the team's interviews with four garment manufacturers and additional data from the review of David Whitehead and Sons (Malawi) Ltd., the country's one textile producer. Because labor is Malawi's greatest resource, it is the appropriate place to begin.

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[1]GOPA, pp. 66-67.

Table C-2. Selected Data on Sample Garment Manufacturers

	Crown	Eros	Press	Press & Shire
% Material Imported	100	0 (now 85)	90	80
% Production Exported	0	0	15	18 (to Zimbabwe but falling to 13)
% Sold to Wholesalers	100	100	75	30 (Retail - 50 Export - 20)
Credit Terms	60-90 days	30 days	90 days (50% discount for cash)	30-120 days
Months Reported for Approval of Foreign Exchange License	1-2	2	4	2
Number of Employees	254	43	350 (1980) 230 (1982)	270 (1978) 520 to 600 (1982)
Daily Production				
Shirts	2,600	2,400	1,000	2,260
Trousers	2,000		1,500	1,000-1,200
Underclothes	600			
Dresses				800
Children's clothes			1,000	
Uniforms				100-200
Shorts		2,400		
Suits				60
Yearly Sales (MK)	2.2 Mil.	30,000	1.1 Mil.	2.3 Mil.
Wages (MK)	N.A	Paid piece-work 6/day 12-15/ week	4.5-6.5/ week	6/week
% Ownership	100 Private	100 Private	100 Press	60 Press 40 Bookers

B. Labor

The garment manufacturers reported that unskilled labor has been readily available and they simply accepted training as a cost of doing business. Training for cutters, sewers, and pressers is usually done on the job under the guidance of a supervisor. The length of training varied by firm and type of garment. A person is considered trained after only a week at Eros Garments, but they only make simple shorts. Suits, shirts, pants, and dresses took three to four months to learn at Crown Fashions and Press & Shire Clothing.

There is a shortage of trained managers, designers, and other highly skilled positions. But again, training was accepted as a responsibility of the firm, and both Press firms had people in training out of the country. Where possible, apprenticeship to a more senior person was also used to improve the trainees' skills.

Employment in the industry as a whole has risen fairly steadily since colonial days. Reflecting Malawi's economic problems, expansion slowed considerably in the late seventies with some firms actually laying off employees. The current picture suggests this was only a temporary slowdown in growth. One firm plans to hire more employees when it gets new equipment and another firm has been expanding through hiring more workers without new equipment.

The mix of labor and machinery is a very important issue in Malawi. Firms in the garment industry seem to work at a fairly basic level of technology. The sewing machines are not much different from those used in American homes, although they were usually at least 10 years old. Stock and garments were carried through the factory on carts without any fancy assembly-line equipment. When touring the garment factory in Malawi, the visitor hears about the modern assembly line equipment that the managers would like to have. The international garment-industry journals the visitor sees in the waiting rooms provide the manufacturers with information about the capital-intensive options available to them. The current state-of-the-art is known in Malawi, but it is not deemed appropriate. With cheap labor, importing expensive machines is not likely to be the most effective means of doing business. So the managers hire the labor and tell the visitor that they "do pretty well anyway."

Nevertheless, even the basic sewing machines are imported, and Malawi's current foreign exchange problems are slowing efficient expansion in the industry. One small firm recently received approval to buy new machines, although there will be a six-month wait for them to be delivered. Another larger firm has not received approval for the machines it needs to take advantage of an export opportunity outside Africa.

Imports of cloth provide the same kind of difficulties, but here the garmentmakers have a choice. There are two sources of cloth for Malawian manufacturers: locally produced Malawian cotton; and imported cotton, synthetics, and blends of cotton and synthetic fibers.

Although David Whitehead (DWM) is producing 30 million yards per year, in 1977 it was exporting about two-thirds as much cloth as Malawi imported. Three of the four manufacturers in our sample imported cloth, with the two largest firms in the industry bringing in 80 percent and 100 percent, respectively. The explanation mentioned most often was quality--Whitehead "material is too heavy." DWM currently produces only cotton cloth in a variety of weights, but tending toward the heavier weights. Current demand in Malawi is for lighter fabrics, particularly polyester, which must be imported.

However, perhaps more important than quality considerations was competition from local tailors. At least one firm reported that the consumer could buy the same David Whitehead material that garmentmakers buy and have a tailor make it up less expensively than the manufacturer could sell it.

Since the fabric patterns distributed by DWM on the bolt are the same as those available to the manufacturer, there would not even be any fashion incentive for the consumer to pay more for the ready-made garment. At least one manufacturer is negotiating with DWM for exclusive designs, but the lower price of cheap imported synthetics is likely to keep imported cloth a significant portion of the supply. Whitehead's upcoming capability to produce polyester/cotton blends should also increase the amount of domestic cloth used by manufacturers but it is expected they will be producing medium- to high-quality cloth. Therefore, the source of supply for cheaper cloth will continue to be the imports.

C. Financing

The financing used in the garment industry reflects the industry's split personality. The two Asian firms used only private money for their original investments, working capital, and expansions. Both firms had access to overdraft accounts at commercial banks, but it seemed to be a point of pride that they did not use them. Each firm is expanding--one has new machines already in transit and the other is waiting for foreign exchange approval to buy new machines. In each instance, private (essentially family) money is being used.

For the Press firms, the picture is neither as clear nor as simple. Press originally invested in two already existing companies. Press purchased enough shares of Mayfair Fashions in 1977 to change the name to Press Fashions. In 1980, Press bought the remaining shares. They were unwilling to discuss Press Holdings' source of funding, but in 1980 INDEBANK loaned Press Fashions MK75,000 for expansion and new equipment.

Bookers owned Shire Clothing from the late 1940s until 1978, when the Press Group bought 60 percent of the company and changed the name to Press & Shire Clothing. According to its general manager, Press received some assistance from INDEBANK, but it is not clear how much.

For working capital, both companies use bank overdrafts. The manager of Press Fashions complained that in 1980, their overdraft facilities were cut in half to MK250,000. As a result, he was forced to cut importation and is still trying to recover. He has just had 11 foreign exchange applications approved at once and is now negotiating with Press Holdings for a short-term loan at 21 percent. Not surprisingly, he particularly stressed the need for confirming facilities.

The potential markets for Malawi's garment production are related to the choice and availability of these inputs. Traditionally, Malawi has focused on the domestic market. The unskilled labor could produce clothing for the limited quality requirements of the Malawian market. Originally, the local market demanded cotton cloth for traditional clothes, but the garmentmakers turned more towards inexpensive cloth from the Far East as demands shifted to inexpensive polyester clothing.

Now the local demand for higher quality clothing is increasing, and the manufacturers are moving to meet this demand. If financing is available (and it seems to be), and the bureaucratic system can be manipulated (which it can in good time), the move to higher quality clothing for local consumption might be followed by expansion of the industry into export markets.

Malawi has exported some of the lower quality, less-expensive clothing to its African neighbors. But economic difficulties in those countries have led to decreasing exports. New market possibilities for export markets are in Zimbabwe and Europe, but those markets require the higher quality garments. Several firms are already exploring possibilities in these new markets, but in at least one instance this is dependent on foreign exchange approval which has not been forthcoming. A review of the Malawi Government's policies provides a more complete understanding of what effect they have on the industry.

D. Policies

Recent foreign exchange restrictions are making it more difficult for manufacturers to get cloth. Prior to 1979, there were no foreign exchange restrictions, although transporting goods through the clogged ports and political unrest in Mozambique were constant constraints. Up until last summer, firms were receiving approval in three weeks, but it now reportedly takes two months. One company reported that it had just received 11 approvals in one batch after waiting four months. This exacerbated its short-term liquidity problem and forced it to borrow money at 21 percent from its parent company to procure the materials needed to operate. All firms are now waiting at least six to seven months for imported cloth.

Not only is there a significant amount of money tied up in stocking six months' worth of supplies, but the manufacturers cannot recover the rebates on their import tariffs until the fabric is made into garments. The erratic nature of foreign exchange application approvals, added to the uncertainties of transportation, make efficient management nearly impossible. This is particularly difficult for firms pursuing localization policies where these complications are being faced by less-experienced managers.

Two policies the Government has pursued which benefit the garmentmakers are in the areas of infrastructure development and wages and prices. The Government has provided roads, electricity, and communication infrastructure. Although the manufacturers pay up to double the minimum wage, they benefit from the policy to keep wages and prices low. Because of this policy, they use labor-intensive techniques of production which are consonant with the Government's goal of increased employment.

Although the need to stockpile fabric supplies is tying up the import duties longer, in the past the duties were 35 percent on fabrics and not refundable. In 1981, the 10 percent duty was rebatable when fabric is manufactured which gives local manufacturers an edge over clothing importers, sellers of imported fabric, and tailors.

The Government's localization policy has been somewhat effective in the clothing industry, which had been dominated by Asians until the mid-seventies. Press and Shire, one of the biggest firms in the industry, is owned 60 percent by Press Holdings, and a medium-size firm is owned 100 percent by Press. A third firm was bought out by the Malawi Young Pioneers' Company, Spearhead. It, however, has already gone out of business because it was unable to maintain a competitive productivity level.

Localization has had an impact on managerial capacity with one firm in serious need of a production manager. The firm has been without one since 1980, when Press Holdings bought it out completely and the Asian General Manager and Production Manager left. (Three brothers had owned the firm and continued to manage it after Press had bought enough shares to change the name to Press Fashions but when Press bought them out 100 percent, they left.)

To fully understand the impact of the entry of Press firms in the market for ready-to-wear clothing, it is necessary to understand how the garments are distributed (see Table C-3). The two Asian firms in the sample sell 100 percent of their garments to wholesalers. Wholesaling is clearly dominated by Asians. Of the two Press firms, Press Fashions sells 60 percent to Asian wholesalers, and Press & Shire sells not more than 15 percent to them. The bulk of Press & Shire's business is going to Import-Export Company (which retails through Chipiku), PTC, Kandodo (owned by Booker which now owns 40 percent of Press & Shire and originally owned 100 percent), and contract work making uniforms for Malawi Rails, ADMARC, United Transport Malawi, Viphya, and others. The manager said its relationship to Press Holdings did not help it get these orders. Their market distribution emerged because the 30 days credit they were able to offer made it difficult to compete for business from wholesalers. Now they have changed their terms to 90-120 days and hope to do better with retailers.

The manager of Press Fashions related an example of the kind of relationship one would have expected to be more prevalent. The previous managing director of Press Trading Company (PTC) had insisted that PTC purchase all its dresses from Press Fashions. Now that he has gone, the South African General Manager at PTC is importing more of his goods from South Africa. The Manager from Press Fashions was most concerned about the loss of control over that part of the market and intended to take it up with their mutual parent company.

E. Tailors

The very smallest, most competitive, market-oriented group of garmentmakers are tailors. They work on shop porches with treadle sewing machines. They are all men, with an occasional woman who presses clothes for them. Tailors today are independent businessmen who own their own machines and work with cloth provided by the customer. They rent space on the porch of shops which sell fabric. Depending on the quality of the space (location and covered roofs seem to be high priorities), they pay between MK5 and MK10 a month in Lilongwe. One benefit is that they can store their machines in the shops at night.

Table C-3. Percentage Distribution of Garment Buyers, by Type

Manufacturer	Percentage Distribution
<u>Crown Fashions</u>	100% Wholesalers
Sells to total of 30 wholesalers in Limbe, Blantyre, Lilongwe, and Mangochi Delivers 50% of output to 5 Asian wholesalers; 50% divided among 25 Asian wholesalers and 5 Malawian wholesalers	
<u>Eros Garments</u>	
Sells equal shares to 4 wholesalers in Blantyre	100% Wholesalers
<u>Press Fashions</u>	
85% Domestic 15% Export PTC (sales to them dropping) Kandodo	75% Wholesalers (60% Asians) 25% Retail
<u>Press and Shire</u>	
	20% Export 30% Wholesalers (12-13% Import-Export Co.) 50% Retailers PTC Kandodo (owned by Booker which owns 40% of Press & Shire) Contract work such as uniforms to UTM, ADMARC and Malawi Rails

Some space is also available inside the old town market for MK9 per month.

Sewing machines come from a number of sources, including the following:

1. Singer--The company sold 75 percent on hire-purchase until about 1970. Singer found it too expensive to collect the money and discontinued hire-purchase. By 1975, sales had dropped by half. Singer now has offices only in Blantyre (80 percent) and Lilongwe (20 percent of sales).

2. Bernina--The policy has been straight cash. Bernina came into the market in the early 1960s, several years after Singer, with a very small share of the market. By 1980, their sales were 80 percent of Singer's, and they are closing their Lilongwe store (which was only selling up to 10 percent of total sales anyway).

3. Malawian workers in South African mines earned enough to purchase machines there and bring them back to Malawi. This source was cut off by the Government policy to stop migration to South Africa in 1974, but Malawians still filtered back for several years. Some migrants to Zimbabwe and Zambia have also returned home with sewing machines.

4. Okhai--The company is supposedly a new competitor but is not selling yet.

5. Other sources are Asians leaving the country and other local tailors who sell their machines.

Currently, no credit appears to be available for the purchase of machines. Tailors use an informal system that combines training, financing, and information-sharing. Often tailors' male relatives come to live with them in order to learn to use the machine. The relative uses the tailor's machine to earn enough money to buy his own machine. The apprentice tailor can buy a machine and go off on his own after he has completed his training to the satisfaction of the master tailor. This usually takes one month.

Formal sewing lessions are available in Blantyre from Singer for MK14 a month and the Polytechnic for MK4 a month. Bernina previously offered lessons but discontinued them because there was no demand. None of the tailors we spoke to had ever availed themselves of these services. Even the sewing machine repairman who previously had worked for Singer said that tailors did not go there for lessons; rather, they learned from each other. Information about how much to charge and where to rent porch space comes primarily from the teaching relative.

F. Conclusion

The garment industry in Malawi is characterized by medium- to small-scale producers in a highly competitive market. Some underutilization of capacity is caused by foreign exchange constraints that limit access to imported cloth, but the high degree of competition suggests that the firms are relatively efficient.

III. CASE NO. 3: THE TEXTILE INDUSTRY--DAVID WHITEHEAD & SONS (MALAWI) LTD. (DWM)

A. General State and Conditions

David Whitehead is an old established English textile firm which dates back to the industrial revolution. In 1949, it began to manufacture overseas, starting first in Rhodesia and then Nigeria. From its operation in Rhodesia, it had a history of supplying the Malawi market, and a knowledge of the business climate. In 1967, soon after independence, David Whitehead Ltd. opened a textile mill in Blantyre. The decision to make this investment appears to have been based on an assessment of the political climate and projections of sales and costs derived from what the firm was already doing.

The policy of the Malawi Government at independence was to encourage foreign investment, rather than to nationalize existing enterprises. As a consequence of this policy, several international companies were attracted to Malawi and established operations there. The corollary of this policy, however, was that the capital base at the disposal of the new Government was quite small. This was recognized by the British Government which made up the budget deficit for a number of years. In support of this policy by the British, the CDC made various investments and loans available to commercially viable enterprises which made investment in Malawi that much more attractive. David Whitehead was one of these early investors.

With the encouragement and support of the Malawi Development Corporation and the Commonwealth Development Corporation, DWM put in a vertically integrated textile mill, designed to serve the local market with 100 percent cotton cloth. The original cost was MK2,600,000, which was raised with loans from CDC and equity from David Whitehead U.K. (51 percent), MDC (29 percent), and CDC (20 percent). Shortly after start-up, CDC sold its interest to Press Holdings Ltd. The original plant started with consumption of 3,000 bales of locally produced cotton, and in four years the level rose to 12,000 bales, roughly one-third of the cotton crop. The mill started with 800 employees, which grew to 1,200 in four years. The result of this initial venture had a number of positive effects on the fledgling economy such as increase in jobs, import substitution, use of local raw material, and infusion of foreign capital and technology.

David Whitehead's original mill was designed to serve the local market--at the time of independence, there were an estimated 4 million persons in the country, with an average income of approximately $80 per year. When the mill reached its initial capacity, production was at the rate of 8 million yards of drills and denims, the coarser range of cloth. As the economy improved, DWM introduced an improved range of fabrics, adding poplin in 1968 and dress prints in 1972. The capacity of the mill was also increased to keep pace with the domestic market, and in 1977, a major expansion, financed in part by the IFC with a $6 million loan, was undertaken. Capacity was increased to 30 million yards per year, with consumption of 24 million bales of cotton. Employment reached 2,800, and exports had developed with neighboring countries to a level of U.S.$3 million per year.

Today, Malawi has a population of more than 6 million and a per capita income of $230 per year. David Whitehead has just announced a major expansion which will provide polyester-cotton blend capabilities, increased production, modernization, and a waste-recovery system. The cost of this expansion is U.S.$20 million and will be financed roughly as follows:

-- IFC: U.S.$5 million
-- CDC: U.S.$5.5 million
-- INDEBANK: U.S.$1.1 million
-- Buyer's Credits: U.S.$3.9 million
-- Retained Earnings: U.S.$4.5 million

It is estimated that employment will increase to 3,350, and the six million yards per year of polyester-cotton which is currently imported will be almost entirely replaced by locally produced material.

This expansion has been made possible by a number of contributing factors, which include the supportive policies of the Malawi Government, the assistance of various foreign development agencies, and the ability of the company to remain competitive and profitable through its 15 years in Malawi. To quote from a David Whitehead publication, "The firm and rapid growth of the company has only been possible as a result of the stable conditions prevailing in the expanding economy of Malawi and to the cooperation which exists between the Government and private sector."

B. Government Policies

Basic to the success of the private sector in Malawi has been the decision at independence to encourage the private sector rather than to nationalize it. This must not have been an easy decision to make, as the body politic took over the country with very few assets of their own. In addition to this initial decision, and far more important, has been the will and the ability to abide by that decision.

Translating this policy into action, there have been a number of discrete activities which the Government has taken to encourage David Whitehead Ltd.

1. Licensing

All industries over a certain size (25 employees or an engine over 10 horsepower) must be licensed by the Ministry of Trade and Industry. From time to time, studies have been made to see if Malawi needs another textile mill, but David Whitehead has pursued a policy of expansion which has kept it near the limit of what the local market requires. The Government would not wish to encourage another mill, if there were only room for one, as such a small economy could ill afford the collapse of an industry of any size. There is, therefore, little risk of establishment of another textile mill in the forseeable future.

2. Wages

The Government has pursued a policy of wage restraint, making more jobs available at the expense of higher incomes. This is particularly beneficial to agriculture and labor-intensive industry, which includes the textile mill.

3. Raw Materials

Government, through the statutory body ADMARC, administers prices of agricultural commodities, including cotton. In the case of Whitehead, the price of cotton is determined by consulting the mill first, as cotton represents about one-third the cost of sales. The theoretical determination of prices is based on expected market price in Europe, less cost of freight and charges. In fact, it appears that ADMARC takes into account the needs of the mill, the anticipated market for textiles, the competition of imports, and various other factors to arrive at a price that is perhaps slightly more favorable to Whitehead, depending on the economic situation.

4. Import Duties

Duties range from 20 to 35 percent on all-cotton fabrics, but until now they have been around 10 percent for polyester-cottons, and that is rebated if the fabric is made into garments by the importer. Thus, Whitehead had almost no competition in all-cotton fabric. It will be interesting to see if there are additional import duties on polyester-cotton after the new expansion is on-stream.

5. Taxation and Repatriation of Profits and Capital

Malawi has a stiff income tax structure, currently at 48 percent for corporations. However, the policy for remittance of profits and repatriation of capital has been extremely liberal throughout the country's history. There is no withholding tax on dividends or interest (as there is in South Africa, Zimbabwe, Botswana, and Swaziland), and a 10-percent investment allowance is given on plant and machinery. Personal taxation has a maximum marginal rate of 45 percent (compared with South Africa's 50 percent, Zimbabwe's 52 percent, Botswana's 65 percent, and Swaziland's 50 percent).

6. Work Permits for Expatriate Management and Technicians

The Malawi Government encourages localization, but takes the realistic attitude that certain skills are not locally available and need to be imported. There appears to be a minimum of interference by the Government in this sphere.

C. Donor Interventions

As detailed above (Section III.A), a variety of donors have assisted in making this project operational. Perhaps foremost in this instance was the Commonwealth Development Corporation, which assisted in three ways:

1. As equity participant, it provided the risk capital for 20 percent of the project.

2. As lender, it provided long-term low-interest loan funds.

3. As a development institution, it is prepared to divest its holdings when local investors are able to take over.

After the operation had proved successful and a need for expansion was clearly demonstrated, the International Finance Corporation assisted in two significant efforts and provided technical assistance in preparing the necessary studies on which the expansion was based. And during the expansion stages, INDEBANK, the local multinational development institution, provided assistance.

D. Interactions

It is apparent that the Government of Malawi actively encourages donor assistance of a practical nature. Poverty may not breed pragmatism, but given the right conditions, it certainly promotes it. Malawi has recognized that there are certain areas in which development activities can play a significant role, and their close association with the U.K.'s Commonwealth Development Corporation and Overseas Development Administration bears witness to this. As was described in an earlier portion of this study, CDC has assisted in a range of commercial activities, as have, to a lesser extent, other donor agencies.

The significance of the David Whitehead venture is that it resulted in added wealth for the nation and those who participated in the exercise. The policies of the Government, the policies and capabilities of the donor agencies, and the interests of the entrepreneur were so aligned that it was possible to establish a very significant and successful enterprise. In 1981, David Whitehead sold U.S.$35 million in textiles and had a net income of $4.2 million. Half of the profits belonged to Malawi (MDC and Press) and half to DWM. It is noteworthy that DWM has chosen to expand its operations, using portions of past and future profits to assist in financing a polyester-cotton mill.

APPENDIX D

STATUTORY BODIES UNDER REVIEW

STATUTORY BODIES UNDER REVIEW

A. COMMERCIAL

1. AGRICULTURAL DEVELOPMENT AND MARKETING CORPORATION (ADMARC)
2. MALAWI RAILWAYS LIMITED
3. MALAWI DEVELOPMENT CORPORATION (MDC)
4. ELECTRICITY SUPPLY COMMISSION OF MALAWI (ESCOM)
5. CAPITAL CITY DEVELOPMENT CORPORATION (CCDC)
6. MALAWI HOUSING CORPORATION (MHC)
7. AIR MALAWI
8. BLANTYRE WATER BOARD
9. MALAWI BOOK SERVICE (MBS)

B. AGRICULTURAL RESEARCH AND DEVELOPMENT

10. KASUNGU FLUE-CURED TOBACCO AUTHORITY
11. SMALLHOLDER TEA AUTHORITY
12. SMALLHOLDER SUGAR AUTHORITY
13. SMALLHOLDER COFFEE AUTHORITY
14. TOBACCO CONTROL COMMISSION
15. TOBACCO RESEARCH AUTHORITY
16. TREE NUT AUTHORITY

C. SUBVENTED

17. MALAWI BROADCASTING CORPORATION (MBC)
18. MALAWI BUREAU OF STANDARDS
19. MALAWI EXPORT PROMOTION COUNCIL
20. MALAWI CERTIFICATE EXAMINATION AND TESTING BOARD
21. MALAWI COUNCIL FOR THE HANDICAPPED
22. NATIONAL LIBRARY SERVICE
23. NATIONAL COUNCIL OF SPORTS
24. NATIONAL CELEBRATIONS COUNCIL
25. DEVELOPMENT OF MALAWIAN TRADERS TRUST
26. CHICHEWA BOARD

APPENDIX E

AID PROJECT HISTORY LIST FOR MALAWI (THROUGH FISCAL YEAR 1981)

AID Project History List for Malawi
(through fiscal year 1981)

Project on DIS System	Project Number	Old Project Number	Project Title	Date Started	Date Completed	Old Tech. Code	Project Status[1]	Obligated to Date (U.S.$000)	Expended to Date (U.S.$000)
	6120000	61211999000	Technical Support	1962	1971	999	C	580	580
	6120054		Bunda College of Agriculture	1976	1982		A	4,447	3,946
	6120132	61211810132	Community Development	1970	1971	810	C	229	229
	6120133	61211660133	Teacher Educ-University of Malawi	1962	1967	660	C	143	143
	6120134	61211110134	Agricultural Development	1962	1973	110	C	2,486	2,486
	6120137	61211610137	Malawi Polytechnic School	1962	1972	610	C	3,062	3,062
	6120138	61211690138	Education Survey	1962	1965	690	C	58	58
	6120139	61211780139	Statistical Development	1962	1972	780	C	898	898
	6120140	61211290140	Survey Rural Ind., Commerce, & Credit	1962	1965	290	C	41	41
	6120148	61211995148	Independence Gift	1964	1965	995	C	140	140
	6120149	61211960149	Mass Communications	1964	1972	960	C	1,046	1,046
	6120152	61211995152	Key Personnel Africanization	1964	1970	995	C	63	63
Yes	6120153	61212390153	Lake Shore Road Feasibility Study	1965	1968	390	C	46	46
Yes	6120153		Lake Shore Road	1966	1974		C	6,848	6,848
Yes	6120153	61212390153	Lake Shore Road Feasibility Study	1965	1968	390	C	46	46
Yes	6120153		Lake Shore Road	1966	1974		C	6,848	6,848
	6120154		Special Self-Help Development	1965	1980		C	1,071	1,071
	6120156	61211650156	Secondary Education	1965	1965	650	C	14	14
	6120157	61211650157	Teacher Education Survey	1966	1968	650	C	12	12

AID Project History List for Malawi (cont.)
(through fiscal year 1981)

Project on DIS System	Project Number	Old Project Number	Project Title	Date Started	Date Completed	Old Tech. Code	Project Status[1]	Obligated to Date (U.S.$000)	Expended to Date (U.S.$000)
	6120158	61211790158	Operation Manpower Development	1966	1971	790	C	304	304
	6120159	61211930159	Preinvestment Survey	1967	1968	930	C	10	10
Yes	6120201		Malawi Polytechnic	1980	1985		A	2,880	245
Yes	6120202		Agricultural Research	1979	1984		A	6,848	1,011
Yes	6120205		Malawi Union Saving and Coop Dev. (PVO OPG)	1980	1985		A	760	123
Yes	6120207		Rural Water	1980	1985		A	2,400	554
	6120441	61211390441	Rural Transportation Development	1962	1971	390	C	436	436
	6129901		Special Self-Help Development-Malawi	1979	1981		A	210	117

[1]Project status: A--active, C--completed, T--terminated.

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